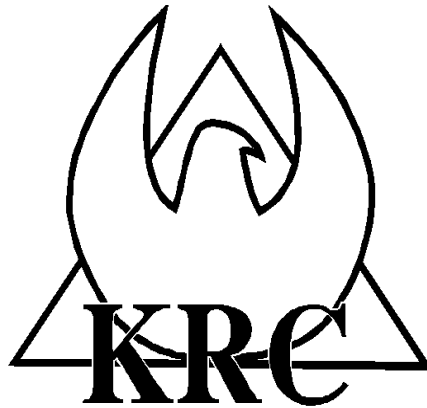

KRC ANNUAL REPORT 1995-96



Kentucky Revenue Cabinet
... for the benefit of Kentucky
and its citizens

Margaret A. Handmaker
Secretary
Revenue Cabinet

Paul E. Patton
Governor
Commonwealth of Kentucky

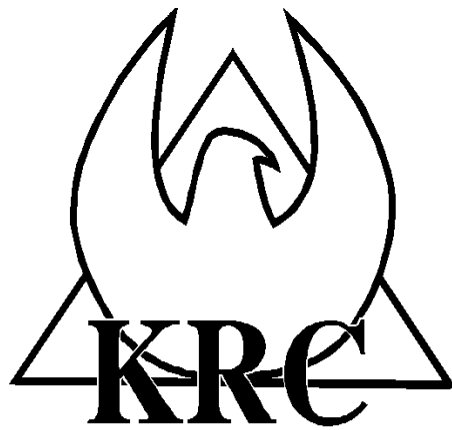
Prepared by:

Public Information and Communication Services Branch
Revenue Cabinet
200 Fair Oaks Lane
Frankfort, Kentucky 40620
(502) 564-4592

H. B. Elkins, Administrative Specialist
Sarah S. Gilkison, Information Office Supervisor
Cindy S. Hampton, Administrative Specialist
Alice A. Henry, Artist
Betty R. Sanford, Administrative Specialist
Janis M. Stewart, Branch Manager
Ladonna C. Ware, Administrative Secretary

1995-96

ANNUAL REPORT



Kentucky Revenue Cabinet

... for the benefit of Kentucky
and its citizens

.....

*All information contained in this report is as of
June 30, 1996.*

.....

The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.

The costs of printing this report were paid by the Kentucky Revenue Cabinet.

Printed on recycled paper.

PAUL E. PATTON
GOVERNOR



MARGARET A. HANDMAKER
SECRETARY

REVENUE CABINET
OFFICE OF THE SECRETARY
FRANKFORT, KENTUCKY 40620

December 15, 1996

The Honorable Paul E. Patton
Governor of the Commonwealth of Kentucky
State Capitol
Frankfort, KY 40601

Dear Governor Patton:

In accordance with Kentucky Revised Statute 12.110, the Annual Report of the Kentucky Revenue Cabinet for Fiscal Year 1995-96 is herewith submitted.

Contained in this report is an analysis of General Fund and Road Fund receipts as well as a review of significant accomplishments by the employees of KRC.

During the past 12 months, not only did we record our highest total of monthly receipts, but we also processed and approved all individual income tax refund requests three weeks ahead of schedule. The number of electronically filed income tax returns more than doubled that of the previous year, and we plan to further expand our use of electronic commerce.

In an effort to fulfill our mission statement, we initiated internal consulting teams to review all aspects of our agency. The announcement of "Empower Kentucky" confirms and complements our mission to provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens.

I am very proud of the Revenue Cabinet employees. They are committed to professionalism, and I know you share my pride in their accomplishments. We look forward to the implementation of technology initiatives which will result in simplified tax filing and better taxpayer services.

Respectfully submitted,

Margaret Handmaker, Secretary
Kentucky Revenue Cabinet

KRC Mission

The Cabinet's mission, reflected in its philosophy and general strategy, is central to all of its work. All of the Cabinet's actions should reflect its mission and similarly, those actions should be judged by the extent to which they help the Cabinet carry out its mission.

Within this framework, it is the mission of the Kentucky Revenue Cabinet to:

Provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.

To achieve its mission, the Cabinet will:

- Promote voluntary compliance with tax laws through educational programs and quality taxpayer services;
- Inform the public of taxpayer rights and responsibilities;
- Establish and maintain clear, concise, accurate and timely communication to foster positive and constructive relations and a better understanding of tax laws;
- Collect and process receipts and returns as cost effectively and efficiently as possible;
- Develop and implement new and innovative programs to minimize noncompliance with tax laws;
- Utilize information resources and expertise to serve in an advisory role;
- Acquire new technologies to implement and maintain a state-of-the-art tax administration system;
- Enforce compliance when there is an intent to defraud or evade the taxes due the Commonwealth; and
- Educate, train, develop and retain the qualified staff necessary to achieve its goals and objectives.

KRC Philosophy

Recognizing that the administration of Kentucky's tax laws is a challenging and sometimes controversial responsibility, the Revenue Cabinet complements its mission with a tax administration philosophy.

The Cabinet's philosophy, drawn from its strategy and mission, represents the fundamental beliefs that shape the approach to policy and operations within a new framework. **IT IS A COMMITMENT TO SERVICE.**

- **Commitment to High Standards of Service.** The Cabinet is committed to raising the standards of tax administration by providing professional, courteous, accurate and efficient service to taxpayers of the Commonwealth as they try to voluntarily comply with Kentucky's tax laws.

This commitment to service—the core of the Cabinet's tax administration philosophy—is pervasive and long-term, and will be a daily expression of the Revenue Cabinet's value system. The high standards set for the Cabinet on behalf of Kentucky's taxpayers will guide strategies and assist in establishing goals and objectives.

- **Commitment to Employees and the Services they Provide.** The Cabinet recognizes that its employees are its greatest asset and they should be encouraged and empowered to use their creativity and resourcefulness in fulfilling the Cabinet's mission.

Employees must be dedicated to working not only individually but as a team to fully satisfy the service needs of Kentucky's taxpayers. Only through teamwork, training and education can staff ensure adequate response and efficient delivery of service.

- **Commitment to Flexibility and Effectiveness in Serving Taxpayers.** Flexibility is essential to accommodate today's rapidly changing world. Taxpayers expect greater efficiency and responsiveness from government. Budgetary and efficiency needs as well as expectations from executive, legislative and judicial branches of government demand quicker and more accurate research and data as it impacts the tax structure. In addition, the need to effectively interact with federal, state and local government officials is becoming increasingly important.

- **Commitment to Assisting the Taxpayer.** By providing the highest quality service, the Cabinet will ensure that taxpayers are able to comply with their tax obligations.

- **Commitment to Fair and Impartial Administration and Enforcement.** The Cabinet will administer the tax laws of the Commonwealth fairly, equitably and impartially, without regard to taxpayers' status, wealth, political affiliation, race, color, creed or disability.

In its pursuit of fair tax administration for all taxpayers—particularly those who do not voluntarily report and pay their Kentucky taxes—the Cabinet will identify and encourage taxpayers to voluntarily comply with their tax reporting and payment responsibilities.

Thus, in an effort to earn total and absolute confidence of Kentucky's taxpayers, the Cabinet will avoid any situation or action which could result in the slightest perception of biased or questionable behavior.

Promoting voluntary compliance, educating taxpayers of their responsibilities and maintaining the Cabinet's daily commitment to Kentucky and its citizens.

The Cabinet will not lose sight of those it serves.

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Kentucky Taxpayer Service Centers	inside back cover

Revenue Receipts

*(Reprinted from the
Finance and Administration Cabinet's 1996
4th Quarter "Quarterly Economic & Revenue Report")*

As shown in Table 1, combined tax and nontax receipts for the General and Road Funds increased by 3.7 percent over the combined receipts in FY95. Table 2 compares only tax receipts for the two funds which grew by 3.3 percent. Table 3 compares combined nontax receipts which grew by 10.2 percent over the previous year.

**Table 1
Total Receipts**

	FY96	FY95	Percent Change
General Fund	\$5,336,883,824	\$5,154,077,980	3.5
Road Fund	<u>939,910,490</u>	<u>900,619,387</u>	4.4
Combined	\$6,276,794,314	\$6,054,697,367	3.7

**Table 2
Tax Receipts**

	FY96	FY95	Percent Change
General Fund	\$5,095,157,184	\$4,931,201,083	3.3
Road Fund	<u>879,869,850</u>	<u>851,156,031</u>	3.4
Combined	\$5,975,027,034	\$5,782,357,114	3.3

**Table 3
Nontax Receipts**

	FY96	FY95	Percent Change
General Fund	\$238,968,407	\$220,634,146	8.3
Road Fund	<u>58,356,382</u>	<u>49,152,084</u>	18.7
Combined	\$297,324,789	\$269,786,230	10.2

General Fund

General Fund receipts rose by 3.5 percent over those reported in FY95. This is in spite of the fact that the effects of the exemption of pension income from the individual income tax and the exemption for Class A

beneficiaries from the inheritance tax, passed during the 1995 Extraordinary Session of the General Assembly, began to be felt. Receipts totaled \$5,336,883,824 in FY96 compared to \$5,154,077,980 total receipts for FY95.

Sales and use tax receipts continued to perform very well although not completing the year with as strong a growth rate as in FY95. Receipts of \$1,783,881,316 grew by 6.2 percent over receipts of \$1,680,520,815 reported in FY95. The growth rate for FY95 was 7.7 percent. For the past five years this tax has had an average growth in excess of 6.5 percent.

Individual income tax receipts of \$2,074,572,167 grew by 5.6 percent over receipts of \$1,964,843,490 posted for FY95. The growth rate in FY95 was 13.6 percent. However, due to the numerous timing factors involved with this tax it is sometime hard to make valid year-to-year comparisons. The average annual growth rate for the past five years was 4.1 percent which makes the growth experienced this year better than the average.

Corporate income tax receipts fell by 16.5 percent after growing by 26.7 percent in FY95. However, corporate income tax receipts have been volatile over the past ten years. Receipts totaled \$284,732,573 for FY96 and compare to receipts of \$340,912,408 for FY95.

Coal severance tax collections fell by 7.3 percent. This is the largest decline experienced in this tax in the past six fiscal years. This tax has experienced a decline in receipts for eight out of the past 10 years. Receipts for FY96 totaled \$166,101,045.

Although the growth in the total property tax was less than last year, the average growth for the past several years has remained fairly constant. Sometimes the timing of collections in this tax can cause fluctuations in growth rates. Total collections of \$409,176,706 grew by 3.5 percent from collections in the same period last year.

Lottery receipts of \$147,000,000 grew by 8.1 percent over FY95. Although this is a lower growth rate than experienced last year, it exceeds the estimate by \$15,000,000.

The "all other" account grew by 3.1 percent with receipts of \$471,420,016. The biggest contributor to this growth was income on investments. This account grew by 43.7 percent over the previous year.

Revenue Receipts

Table 4 compares the growth rates in the major General Fund categories and the fund as a whole for the entire year and the four individual quarters.

Table 4
General Fund Growth Rates
for the Four Quarters and Full Year, FY96

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY96
Total					
Receipts	2.6%	8.6%	-3.7%	6.7%	3.5%
Sales & Use	5.6	6.0	5.4	7.5	6.2
Individual					
Income	2.5	15.2	-6.5	13.2	5.6
Corporate					
Income	-8.4	-23.5	-29.6	-14.1	-16.5
Coal					
Severance	-12.6	-8.4	-7.5	0.2	-7.3
Property	23.4	24.3	-15.9	-14.0	3.5
Lottery	13.8	-2.9	-2.9	23.1	8.1
All Other	-4.0	1.8	3.0	8.6	3.1

Road Fund

Total Road Fund receipts of \$939,910,490 grew by 4.4 percent over the \$900,619,387 collected during the last fiscal year. This is the same rate of growth experienced in that fund in FY95. The Road Fund has been fairly consistent overall for the past several years.

Motor fuel taxes, with receipts of \$378,142,941, grew by 1.3 percent over FY95 collections of \$373,316,977. This is a decline from the previous year when the growth rate was 4.2 percent.

Motor vehicle usage tax receipts of \$327,674,445 grew by 6.8 percent over the \$306,866,699 collected in FY95. Although the usage tax itself is growing, the portion with the largest growth is rental usage. That portion of the tax has experienced double-digit growth for the past six years.

The weight distance tax receipts stabilized during the year and finished with a growth of 4.5 percent. Receipts in this tax totaled \$59,809,913 and compare to \$57,224,944 collected during the last fiscal year.

Table 5 displays the growth rates for the Road Fund and its major tax categories for the year as a whole and the four individual quarters.

Table 5
Road Fund Growth Rates
for the Four Quarters and Full Year, FY96

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY96
Total					
Receipts	4.6%	4.6%	1.9%	6.3%	4.4%
Motor Fuels	0.6	2.4	1.2	1.1	1.3
Motor					
Vehicle					
Usage	9.1	6.1	4.4	7.4	6.8
Weight					
Distance	7.4	4.7	3.4	2.7	4.5
All Other	4.4	8.0	-1.1	15.7	6.8

Enforcement Collections

Table 6 contains a detailed analysis of enforcement collections. The current method is deemed to be a more exact representation of collections due to compliance efforts.

Enforcement collections for the year totaled \$109,542,528 in General Fund accounts and compare to \$105,240,173 for the same period last year. This is a growth of 4.1 percent.

Table 6
Enforcement Collections, FY96

	FY 96	FY95	Percent Change
Sales & Use	\$ 35,222,160	\$ 31,151,399	13.1
Individual			
Income	28,665,107	28,365,697	1.1
Corporation			
Income	12,599,459	23,108,315	-45.5
Coal			
Severance	1,067,783	1,822,805	-41.4
Total Property	28,528,818	19,412,293	47.0
All Other	<u>3,459,201</u>	<u>1,379,664</u>	150.7
TOTAL	\$ 109,542,528	\$ 105,240,173	4.1

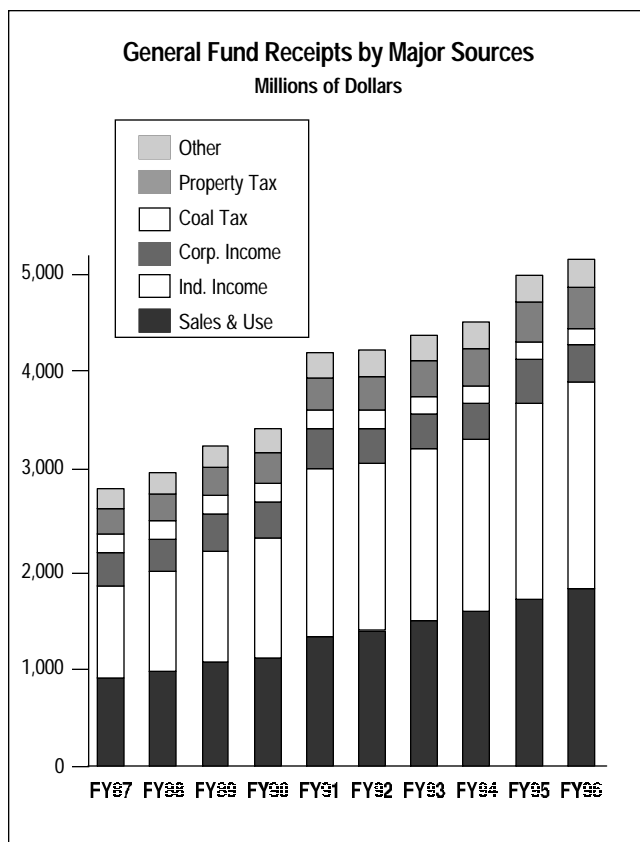
Revenue Receipts

GENERAL FUND

GENERAL FUND TOTAL RECEIPTS		
Fiscal Year	Receipts	Percent Change
1995-96	\$5,336,883,824 ¹	3.5
1994-95	5,154,077,980 ¹	10.9
1993-94	4,647,078,322 ¹	3.0
1992-93	4,511,721,822 ¹	3.5
1991-92	4,360,835,365 ¹	1.1
1990-91	4,311,675,984 ^{1,2}	21.1
1989-90	3,560,983,777 ¹	8.2
1988-89	3,289,923,473	8.6
1987-88	3,030,205,722	5.4
1986-87	2,874,881,543	5.0

¹Lottery revenues were deposited in the General Fund.

²Total corrected by Finance and Administration Cabinet.



ALCOHOLIC BEVERAGE TAXES

Malt Beverage		
Fiscal Year	Receipts	Percent Change
1995-96	\$34,489,349	2.0
1994-95	33,812,169	3.9
1993-94	32,553,876	4.4
1992-93	31,172,541	2.5
1991-92	30,404,806	4.8
1990-91	29,002,422	5.9
1989-90	27,376,409	3.4
1988-89	26,484,829	0.2
1987-88	26,436,124	2.0
1986-87	25,915,162	2.8

Distilled Spirits

Fiscal Year	Receipts	Percent Change
1995-96	\$20,493,441	3.0
1994-95	19,897,599	-0.3
1993-94	19,960,515	0.2
1992-93	19,923,344	2.2
1991-92	19,485,739	0.9
1990-91	19,314,634	2.8
1989-90	18,789,245	0.8
1988-89	18,634,784	-0.6
1987-88	18,755,957	-0.9
1986-87	18,922,844	-1.2

Wine

Fiscal Year	Receipts	Percent Change
1995-96	\$5,610,308	15.7
1994-95	4,847,726 ¹	7.9
1993-94	4,492,841	0.9
1992-93	4,454,161	4.2
1991-92	4,273,359	4.6
1990-91	4,085,329	0.7
1989-90	4,055,763	1.0
1988-89	4,014,466	-1.9
1987-88	4,092,858	-4.2
1986-87	4,271,885	3.3

¹Total corrected by Finance and Administration Cabinet.

Revenue Receipts

CIGARETTE TAX¹

Fiscal Year	Receipts	Percent Change
1995-96	\$15,680,704	3.7
1994-95	15,126,270	5.9
1993-94	14,285,746	2.1
1992-93	13,994,590	-0.4
1991-92	14,044,608	-1.6
1990-91	14,278,438	2.7
1989-90	13,897,537	-2.1
1988-89	14,193,246	-4.4
1987-88	14,841,624	0.7
1986-87	14,731,249	-3.3

¹The cigarette tax is levied at the rate of 3 cents per pack. These totals reflect the 2.5 cents per pack that are deposited into the General Fund. The remaining 0.5 cent per pack is dedicated to tobacco research and is deposited in the Tobacco Research Trust Fund.

COAL SEVERANCE TAX

Fiscal Year	Receipts	Percent Change
1995-96	\$166,101,045	-7.3
1994-95	179,116,944	-0.4
1993-94	179,844,327	-0.2
1992-93	180,117,668	-2.7
1991-92	185,102,332	-3.1
1990-91	191,037,171	-2.3
1989-90	195,496,376 ¹	8.2
1988-89	180,603,799	-4.6
1987-88	189,243,741	1.6
1986-87	186,347,025	-6.1

¹Total corrected by Finance and Administration Cabinet.

CORPORATION INCOME TAX

Fiscal Year	Receipts	Percent Change
1995-96	\$284,732,573	-16.5
1994-95	340,912,408	26.7
1993-94	269,067,231	5.6
1992-93	254,775,357	-6.0
1991-92	271,026,952	-15.1
1990-91	319,350,654 ¹	14.3
1989-90	279,482,573	-10.1
1988-89	310,803,412	21.5
1987-88	255,760,016 ²	-4.3
1986-87	267,378,904	14.5

¹Each tax rate increased one percentage point effective January 1, 1990.

²Percent change corrected.

CORPORATION LICENSE TAX

Fiscal Year	Receipts	Percent Change
1995-96	\$90,525,391	-7.1
1994-95	97,449,950 ¹	18.8
1993-94	82,031,324 ¹	-5.8
1992-93	87,061,523	6.3
1991-92	81,926,247	0.3
1990-91	81,709,060	8.5
1989-90	75,328,093	8.7
1988-89	69,271,992	12.5
1987-88	61,548,677	-4.7
1986-87	64,603,966	55.6

¹Total corrected by Finance and Administration Cabinet.

INDIVIDUAL INCOME TAX

Fiscal Year	Receipts	Percent Change
1995-96	\$2,074,572,167	5.6
1994-95	1,964,843,490	13.6
1993-94	1,729,182,293	-0.2
1992-93	1,733,415,059	3.3
1991-92	1,678,525,589	-0.9
1990-91	1,693,338,659 ¹	39.9
1989-90	1,210,284,972	8.9
1988-89	1,111,707,645	10.4
1987-88	1,006,992,448	9.3
1986-87	920,968,822	12.3

¹Kentucky income tax law was amended to conform to the Internal Revenue Code in effect on December 31, 1989, and the deduction for federal income tax was repealed.

INHERITANCE AND ESTATE TAX

Fiscal Year	Receipts	Percent Change
1995-96	\$81,441,427 ¹	2.4
1994-95	79,511,634	4.4
1993-94	76,135,351	7.3
1992-93	70,965,470	-8.3
1991-92	77,354,648	12.6
1990-91	68,726,903	2.8
1989-90	66,855,011	25.2
1988-89	53,396,904	8.8
1987-88	49,056,276	-0.6
1986-87	49,334,379	-10.2

¹Phase-in of Class A beneficiary exemption began July 1, 1995.

Revenue Receipts

INSURANCE PREMIUMS TAX

Foreign Life Insurance Companies

Fiscal Year	Receipts	Percent Change
1995-96	\$36,165,049	6.5
1994-95	33,966,941	-10.7
1993-94	38,057,960	11.1
1992-93	34,268,972	1.7
1991-92	33,703,047	15.7
1990-91	29,130,844	1.7
1989-90	28,656,062	-1.8
1988-89	29,168,422	12.5
1987-88	25,927,584	1.7
1986-87	25,495,743	22.2

Insurance Companies Other than Life

Fiscal Year	Receipts	Percent Change
1995-96	\$48,687,419	7.0
1994-95	45,515,163	6.5
1993-94	42,720,970	5.1
1992-93	40,631,761	2.1
1991-92	39,781,751	3.3
1990-91	38,529,132	9.6
1989-90	35,164,266	0.0
1988-89	35,165,882	1.2
1987-88	34,752,279	5.4
1986-87	32,975,884	8.6

MINERALS AND NATURAL GAS TAX

Fiscal Year	Receipts	Percent Change
1995-96	\$17,378,785	17.6
1994-95	14,783,614	-11.6
1993-94	16,718,727	8.1
1992-93	15,463,902	18.0
1991-92	13,105,878	-16.7
1990-91	15,733,934	12.1
1989-90	14,032,659	2.9
1988-89	13,632,519	-17.6
1987-88	16,554,219	26.8
1986-87	13,053,260	-43.4

OIL PRODUCTION TAX

Fiscal Year	Receipts	Percent Change
1995-96	\$2,644,656	-5.0
1994-95	2,784,562	3.2
1993-94	2,697,560	-38.9
1992-93	4,413,136	-7.2
1991-92	4,756,184	-18.3
1990-91	5,824,523	33.5
1989-90	4,363,731	14.0
1988-89	3,828,984	-9.9
1987-88	4,247,701	13.5
1986-87	3,742,154	-51.4

PARI-MUTUEL TAX

Fiscal Year	Receipts	Percent Change
1995-96	\$ 7,148,951	-1.5
1994-95	7,256,986	18.3
1993-94	6,134,317	-1.8
1992-93	6,247,368	-8.8
1991-92	6,852,421	6.5
1990-91	6,435,598 ¹	-42.1
1989-90	11,124,213	6.9
1988-89	10,402,885 ²	59.4
1987-88	6,525,493	10.7
1986-87	5,896,646 ³	-27.7

¹Tax rate and credit system were restructured, effectively reducing the amount of the pari-mutuel tax.

²Effective July 15, 1988, intertrack wagering was permitted in Kentucky and subjected to pari-mutuel taxing at the rate of 5 percent on all money wagered at receiving tracks. When acting as receiving tracks, the pari-mutuel tax credits cannot be applied.

³From July 15, 1982, through June 30, 1988, a 3 percent credit was allowed for all running tracks with an average daily handle of less than \$900,000. From July 15, 1986, to June 30, 1988, a 1 percent credit was allowed for all running tracks with an average handle of \$900,000 or more. As of July 1, 1988, the average daily handle requirement was changed from \$900,000 to \$1,200,000. In addition, a 2 percent credit was allowed from July 15, 1982, through the present for all trotting tracks with an average daily handle of less than \$300,000.

Revenue Receipts

PROPERTY TAXES—REAL ESTATE

Fiscal Year	Receipts	Percent Change
1995-96	\$142,728,406	7.2
1994-95	133,200,108	0.8
1993-94	132,125,477	4.6
1992-93	126,333,184	3.4
1991-92	122,146,269	5.7
1990-91	115,574,669	2.3
1989-90	112,971,186	2.1
1988-89	110,657,160	4.9
1987-88	105,479,903	4.6
1986-87	100,876,663	3.0

PROPERTY TAXES—INTANGIBLE

Fiscal Year	Receipts	Percent Change
1995-96	\$66,489,089	-20.4
1994-95	83,479,482	7.9
1993-94	77,393,521	-0.5
1992-93	77,751,342	11.1
1991-92	69,961,863	-2.0
1990-91	71,415,874	12.9
1989-90	63,275,797	10.9
1988-89	57,063,060	3.6
1987-88	55,099,760	19.5
1986-87	46,106,451	18.9

PROPERTY TAXES—TANGIBLE

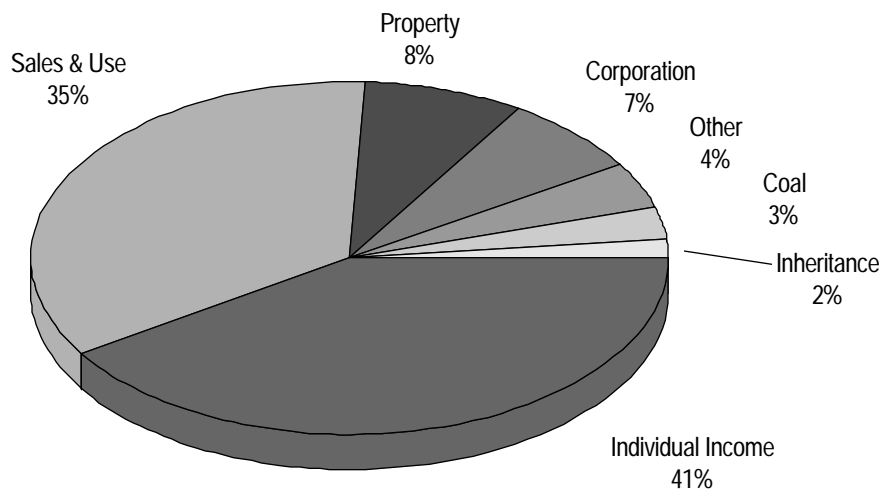
Fiscal Year	Receipts	Percent Change
1995-96	\$137,812,773	20.8
1994-95	114,122,717	9.2
1993-94	104,501,822	10.8
1992-93	94,346,047	4.5
1991-92	90,281,298	7.3
1990-91	84,110,969	7.5
1989-90	78,212,759	18.9
1988-89	65,761,650	7.1
1987-88	61,383,104	7.0
1986-87	57,364,758	-19.7

SALES AND USE TAX

Fiscal Year	Receipts	Percent Change
1995-96	\$1,783,881,316	6.2
1994-95	1,680,520,815	7.7
1993-94	1,560,085,519	6.7
1992-93	1,462,251,261	7.2
1991-92	1,363,690,026	5.2
1990-91	1,296,310,445 ¹	19.4
1989-90	1,085,822,176	3.9
1988-89	1,045,200,114	9.8
1987-88	951,755,124	6.7
1986-87	891,895,982	1.2

¹The tax rate was raised from 5 to 6 percent effective July 1, 1990.

Makeup of FY 1996 General Fund



Revenue Receipts

ROAD FUND

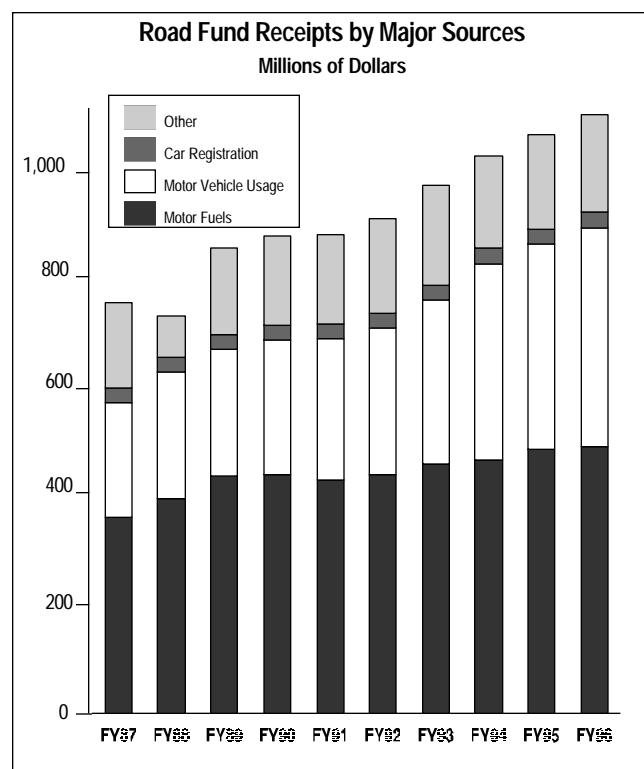
Fiscal Year	ROAD FUND TOTAL RECEIPTS ¹	
	Receipts	Percent Change
1995-96	\$939,910,490	4.4
1994-95	900,619,387	4.4
1993-94	862,826,425	5.2
1992-93	820,411,480	4.9
1991-92	781,808,152	2.1
1990-91	765,598,232 ²	1.5
1989-90	754,484,154	3.5
1988-89	729,203,981 ³	16.8
1987-88	624,218,287 ³	-4.6
1986-87	654,121,167 ⁴	33.6

¹Does not include federal grants.

²Motor vehicle usage tax rate was increased to 6 percent effective July 1, 1990.

³Percent change corrected.

⁴The tax rate was increased an additional five cents per gallon for gasoline and two cents per gallon for special fuels. In addition, the surtax was increased from two cents per gallon to four and seven-tenths cents per gallon.



MOTOR FUELS TAXES

Fiscal Year	Motor Fuels Normal	
	Receipts	Percent Change
1995-96	\$378,142,941	1.3
1994-95	373,316,977	4.2
1993-94	358,435,307	1.4
1992-93	353,651,330	4.5
1991-92	338,517,487	3.4
1990-91	327,467,484	-2.7
1989-90	336,436,477	0.1
1988-89	336,034,614	10.5
1987-88	304,160,687	8.3
1986-87	280,950,264 ¹	49.8

¹The tax rate was increased an additional five cents per gallon for gasoline and two cents per gallon for special fuels.

Motor Fuels Normal Use and Surtax

Fiscal Year	Receipts	Percent Change
1995-96	\$22,554,473	-2.2
1994-95	23,052,951	7.7
1993-94	21,399,126	3.9
1992-93	20,591,812	-1.9
1991-92	21,000,948	-6.0
1990-91	22,331,775	-2.7
1989-90	22,943,630	5.7
1988-89	21,713,096	20.7
1987-88	17,993,933 ¹	36.6
1986-87	13,176,844 ²	100.8

¹Percent change corrected.

²The tax rates were increased as described for motor fuels normal. In addition, the surtax was increased from two cents per gallon to four and seven-tenths cents per gallon.

Revenue Receipts

MOTOR VEHICLE OPERATOR'S LICENSE

Fiscal Year	Receipts	Percent Change
1995-96	\$5,110,387	-1.2
1994-95	5,170,423	-3.5
1993-94	5,358,710	6.7
1992-93	5,020,733	-3.8
1991-92	5,221,356	3.6
1990-91	5,038,197	-6.0
1989-90	5,361,189	0.7
1988-89	5,325,961	16.6
1987-88	4,569,624	5.2
1986-87	4,343,654	-4.9

MOTOR VEHICLE USAGE TAX

Fiscal Year	Receipts	Percent Change
1995-96	\$298,585,859	5.2
1994-95	283,820,829	2.0
1993-94	278,157,347	19.1
1992-93	233,527,651	11.4
1991-92	209,619,192	2.2
1990-91	205,055,084 ¹	5.8
1989-90	193,791,775	6.5
1988-89	182,035,253	0.6
1987-88	181,005,313	9.4
1986-87	165,491,852	9.1

¹The tax rate was increased from 5 percent to 6 percent.

MOTOR VEHICLE REGISTRATIONS

Passenger Car Registration

Fiscal Year	Receipts	Percent Change
1995-96	\$23,389,132	0.0
1994-95	23,398,303	-0.3
1993-94	23,473,690	1.7
1992-93	23,083,164	0.8
1991-92	22,893,363	1.6
1990-91	22,528,562	0.1
1989-90	22,504,662	3.5
1988-89	21,754,125	0.1
1987-88	21,726,615	5.9
1986-87	20,525,073	0.5

MOTOR VEHICLE RENTAL USAGE TAX

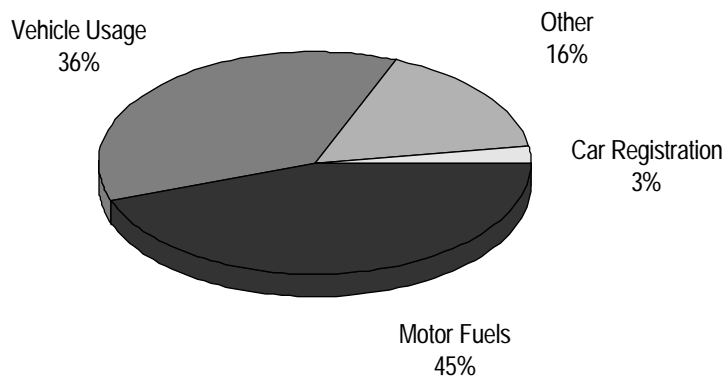
Fiscal Year	Receipts	Percent Change
1995-96	\$29,054,964	26.5
1994-95	22,966,441	34.7
1993-94	17,055,319	40.7
1992-93	12,124,476	33.2
1991-92	9,103,767	25.3
1990-91	7,264,932 ^{1,2}	11.5
1989-90	6,517,199	-9.8
1988-89	7,228,039 ³	-29.2
1987-88	10,216,170	33.2
1986-87	7,669,841 ^{1,4}	18.5

¹Percent change corrected.

²The tax rate was increased from 5 percent to 6 percent.

³The tax rate was reduced from 8 percent to 5 percent.

⁴The tax rate was increased from 5 percent to 8 percent and the tax base was narrowed.



**Makeup of
FY 1996
Road Fund**

Major Accomplishments

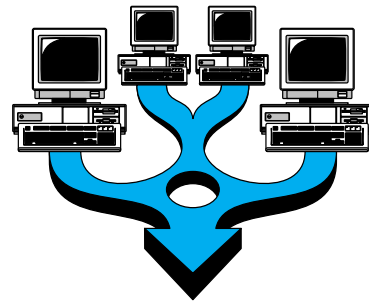
Major KRC Accomplishments in Fiscal Year 1995-96

Accomplishments during Fiscal Year 1995-96 reflect employees' commitment to KRC's goals. These accomplishments emphasize the Cabinet's mission—to provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.

Specific accomplishments which underscore major progress toward KRC's strategic goals are as follows:

Taxpayer Service

- Activated the compliance and receivables system (CARS). CARS improves communication with taxpayers by providing one document giving a detailed explanation of audit adjustments and liabilities; improves communication within KRC by maintaining the entire billing document online and identifying the employee responsible for the billing operation; enhances payment processing; and improves the ability to link liabilities for different taxes to one taxpayer.
- Developed brochures explaining taxpayer responsibilities for motor vehicle, public utility, tangible and intangible property taxes.
- Worked with several unmined mineral associations to revise and update the returns to improve the filing process.
- Developed a newsletter to provide information on withholding tax and sales tax to employers. The newsletter is intended to simplify the complexity of filing returns and paying the tax.
- Produced a checklist/withholding tax tips insert and included it with the year-end employer's return of income tax withheld to help taxpayers avoid common errors which often lead to processing delays.
- Began a series of taxpayer assistance workshops for small business owners, bookkeepers and accountants to provide information needed to timely and accurately file sales tax returns. In partnership with the Internal Revenue Service, KRC also participated in tax schools sponsored by the University of Kentucky and the University of Louisville, which attracted 1,800 participants.
- Began a voluntary procedure for practitioners to speed the dispersal of estate assets and pending settlement by offering the option of preparing inheritance and estate tax lien releases and sending them to KRC for immediate approval without having to incur the normal waiting period.
- Expanded electronic commerce initiatives. For the first time, taxpayers who filed electronically were offered direct deposit of their refund checks. KRC received more than 127,000 electronically filed 1995 individual income tax returns, up from 53,000 the previous year.
- Improved and upgraded tax forms and publications to better inform taxpayers of filing procedures and requirements.
- Continued centralization of Frankfort KRC offices to provide easier, more convenient access for taxpayers and practitioners.



- Designed and placed online KRC's home page on the Internet's World Wide Web. The Internet site contains information of interest to taxpayers, tax practitioners and persons researching Kentucky's tax structure. KRC forms and publications are available electronically. An E-mail link gives taxpayers another way to communicate with KRC.
- Processed all of the 1,120,623 timely and correctly filed individual income tax returns requesting refunds by June 12, 1996, beating the June 30 deadline by nearly three weeks. A total of \$259,522,731 was issued in refunds, with refunds averaging \$232. Tax refund checks for timely and correctly filed refund returns were mailed by June 21, 1996.

Major Accomplishments

Collection of Tax Revenues

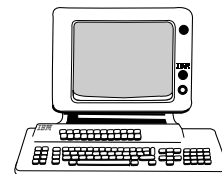
- Designed a new and simpler version of the Tangible Personal Property Tax Return, Form 62A500.
- Continued the compliance initiatives supported by funding requested and received from the General Assembly in 1994. KRC agreed to maintain a baseline collections level of \$146,200,834 and to produce an additional \$21,785,000 in revenue. The results were baseline collections of \$172,254,260, which exceeded the goal by 18 percent; and expansion collections of \$38,437,730, which exceeded the goal by 76 percent.
- Entered into an independent audit contract to conduct tangible property tax audits of taxpayers with records located outside Kentucky.
- Continued prosecution of individuals who willfully neglect their tax filing and payment requirements.
- Recorded the largest-ever monthly deposit total in April. KRC deposited a gross amount of \$617.1 million, and net receipts totalled \$543.4 million. The previous highest gross monthly total was \$546 million, recorded in December 1995.

Business Practices

- Updated and enhanced recruiting materials. An "Employment Opportunities With the Kentucky Revenue Cabinet" pamphlet was created for distribution at colleges and job fairs.
- Implemented internal consulting teams composed of various agency personnel to identify *best practice* opportunities and eliminate nonvalue added activities.

Technological Advancements

- Developed, researched and assisted property valuation administrators in implementation of computer-based property identification mapping methods.
- Implemented bar-code technology to support inventory tracking and workflow analysis during the processing season for annual individual income tax returns.
- Began using an online journal voucher (JV) system. The JV system enables the tax systems to reflect activity in a more timely and accurate manner by performing online edits and eliminating many of the manual steps.
- Secured a \$36,450 matching grant from the Kentucky Information Management Resources Commission for the Garrard County Property Valuation Administrator's office. The grant will be used to modernize Garrard County's mapping system using Global Positioning System data.
- Upgraded the Automated Refund and Tax Information System (ARTIS) to 24 phone lines to accommodate callers seeking information on their tax refunds. KRC received 195,000 calls to ARTIS concerning 1995 individual income tax returns.



Electronic Commerce Developments and Initiatives

KRC continued to make great strides in developing electronic commerce initiatives in an effort to expedite processing of tax receipts and returns as effectively and efficiently as possible. Electronic commerce provides benefits for KRC and for individual and corporate taxpayers.

KRC offers a joint federal/state electronic filing program (ELF) for individual income tax returns. Also, an electronic funds transfer (EFT) process allows KRC to receive and acknowledge electronic payments of sales and use and withholding taxes.

Both types of electronic commerce increased during Fiscal Year 1995-96. In its second year of operation on a statewide basis, the number of ELF returns received by KRC increased two and a half times to 127,990. Electronically filed returns accounted for more than 9 percent of the total individual income tax returns for 1995. A survey of tax professionals reflected ELF's success and the satisfaction of preparers and taxpayers.

Taxpayers who used ELF received refunds even faster when directly deposited into their bank accounts. In the first year for direct deposit, approximately 13,000 taxpayers participated.

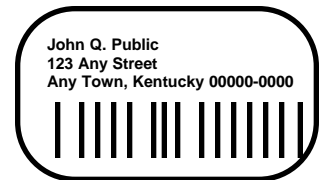
The number of EFT accounts increased to 2,700, representing nearly \$1.7 billion in revenue during Fiscal Year 1995-96. The amount collected during Fiscal Year 1995-96 increased more than 200 percent.

Each fall, KRC determines which businesses are required to participate in EFT based on a threshold set by the General Assembly. Businesses not required to remit tax payments through EFT are encouraged to do so voluntarily.

Other electronic commerce developments are planned. For example, KRC is working with the Internal Revenue Service to offer a joint federal/state telefile program. Also, a study of online filing is taking place to increase use of new technologies. The use of EFT is increasing in other states and KRC is planning new applications to allow the receipt of other types of tax receipts through EFT.

Use of ARTIS, Postcard Program and Bar-coded Labels Speeds Income Tax Processing and Saves Money

The use of bar-coded labels for individual income tax returns, coupled with a postcard program, allowed faster processing of returns and saved money through reduced mailings of income tax packets.



Taxpayers were given the option on individual income tax returns to receive only preprinted mailing labels from KRC, instead of heavier forms packages which cost more to print and mail. This allows the labels to be used on returns provided by preparers or generated by tax-preparation software packages.

These labels are bar-coded and preprinted with the taxpayer's name, address and taxpayer identification number. They are used in conjunction with KRC's Automated Refund and Tax Information System (ARTIS) to allow taxpayers to verify that KRC received their returns and to check on the status of refunds by touch-tone telephone.

ARTIS enjoyed a significant increase in popularity in its second year of operation. An average of 1,300 calls per day were received, totalling approximately 200,000 calls during the tax season.

ARTIS allows taxpayers to check the status of their returns by entering their taxpayer identification numbers and following the prompts from the system.

Governor Patton Extends Income Tax Filing for Kentucky Troops Serving in Bosnia

Governor Paul Patton issued an executive order on Feb. 26, 1996, granting a one-time extension for filing Kentucky individual income tax returns to Kentucky military personnel serving in Operation Joint Endeavor in Bosnia.

All Kentucky troops stationed in Bosnia on or after March 15, 1996, received an eight-month filing extension. These soldiers were given until Dec. 15, 1996,

Taxpayer Service

to file their 1995 Kentucky individual income tax returns and pay any applicable taxes due.

"It is important that we support our military personnel," Governor Patton said. "This executive order is one small way Kentucky can show appreciation and pride in its troops."

KRC Continues Centralization of Offices

Continuing its strategic goal to provide quality service by making access to KRC offices more convenient, the centralization of KRC's Frankfort offices progressed during Fiscal Year 1995-96.

In December, the Division of Collections moved from East Main Street to the fifth floor of 100 Fair Oaks Lane.

In May, the Audit Selection Section moved from West Main Street to the third floor of 200 Fair Oaks Lane.

These relocations are part of a long-term plan to consolidate offices in the Frankfort area. In 1992, there were nine KRC offices located throughout the city. KRC offices are now located in three Frankfort locations.

The Division of Revenue Operations is located at Perimeter Park West, 1266 Louisville Road.

The divisions of Local Valuation and Technical Support and the Department of Property Taxation's commissioner's office are located at 592 East Main Street.

All other Frankfort KRC offices are located at the Fair Oaks Lane complex, off Wilkinson Boulevard.

KRC Establishes Home Page on Internet

On Feb. 1, KRC's Internet Information Service went online. The Cabinet's Internet presence gives persons all over the world immediate access to information, forms and publications.

KRC's home page on the World Wide Web offers the following items of interest to taxpayers, tax practitioners and persons researching Kentucky's tax structure:

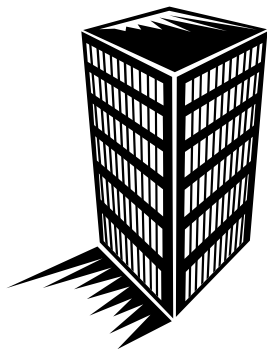
- General information about KRC, including the agency's mission, philosophy and goals.
- Addresses and phone numbers of KRC's Frankfort offices and the 11 taxpayer service centers located throughout Kentucky.
- A selection of the most commonly used Kentucky tax forms, with instructions on how to obtain other forms not contained on the Web page.
- Answers to frequently asked questions on Kentucky's business registration procedures and the individual income tax, including details on the electronic filing program.
- KRC publications such as the agency's annual report, **Kentucky Tax Alert**, **Tax Facts** and information on obtaining other publications not available on the Web page.
- Announcements of tax seminars and other events designed to educate taxpayers on how to properly file Kentucky tax returns.
- Links to other Kentucky state agencies, the Internal Revenue Service and other revenue and taxation resources on the Internet.

In addition, KRC was the first state Cabinet to make its annual report available on the Internet.

As the April 15 individual income tax filing deadline approached, traffic increased at KRC's Web site as taxpayers downloaded forms.

Another popular feature was the addition of an electronic mail link. Visitors to KRC's Web site can now send their questions via E-mail to a central KRC mailbox. These queries are directed to the appropriate specialists for answers.

KRC's Web site is constantly updated as new information becomes available. Persons interested in visiting KRC's Web site should point their Internet browsers to <http://www.state.ky.us/agencies/revenue/revhome.htm>



Ombudsman's Office Resolves Taxpayer Problems

The resolution of taxpayer problems in an effective and efficient manner is the primary focus of the Office of Taxpayer Ombudsman. This past year, the Office of Taxpayer Ombudsman was instrumental in changes benefitting the taxpayers of the commonwealth. The following are a direct result of the efforts of the Ombudsman's Office:

- Legislation was proposed and enacted to increase the threshold of income required for a taxpayer to make estimated individual income tax payments from \$200 to \$500.
- KRC established return mail procedures preventing original tax notices containing an incorrect mailing address from becoming due and payable when the address on the notice was not correct.
- KRC established procedures to review correspondence promptly to determine if a notice of tax due was protested so that immediate action could be taken to suspend collection action until the case received further review.
- KRC implemented procedures to prevent the accrual of collection costs and fees if a taxpayer qualified for a payment agreement in most cases.



- Notices cautioning officers of newly formed corporations of potential personal tax liabilities, should those corporations not stay in compliance with the filing and payment of certain taxes, are no longer mailed to the officers' home addresses.
- KRC expanded information on notices of tax due to include more information about taxpayer rights and KRC responsibilities.
- KRC designated visitor parking for taxpayers visiting KRC's offices at 200 Fair Oaks Lane.

The Ombudsman's Office successfully worked with KRC staff to identify problems with processing current year individual income tax returns and delinquency notices sent in error, writing informational publications and providing customer service training for KRC and the Department of Libraries and Archives. A representative from the Ombudsman's Office served on the Cabinet for Economic Development Strategic Planning Tactic Team to address various concerns about licensing and permitting problems in Kentucky and to make recommendations for streamlining the regulatory and licensing processes.

Additionally, the staff worked to prevent injustices to individual taxpayers resulting in the reconsideration of information submitted in support of protested assessments, removal of tax liens from credit reports, and the reduction and removal of tax levies when KRC was in error or premature in the filing, adjustments to the valuation of vehicles incorrectly valued, and the reconsideration of a denial or adjustment to a refund.

Advancements

Business Process Re-engineering, Personnel Pilot Project Continue

The business process re-engineering (BPR) project and its related personnel pilot project for the Division of Revenue Operations continued during Fiscal Year 1995-96.

The BPR project began in January 1995, with the goal of improving the methods of tax administration and collection by reconfiguring the workflow. Revenue Operations is responsible for receiving and processing revenues for deposit into the state treasury, registering firms for business taxes, processing tax returns and making additional assessments or refunds. It is also responsible for records management. It is KRC's busiest division, especially during individual income tax processing season.

As a result of BPR, the division was reorganized into multifaceted teams specializing in processing specific tax receipts. Employees were also cross-trained to assist the team in a variety of functions.

Previously, employees were assigned to specific tasks such as opening mail, entering information, etc. Now, employees are grouped into teams which are responsible for processing tax returns from the time received until sent to the Central Files Section for storage.

The layout of the Perimeter Park facility location was changed to accommodate the team-based approach. Cosmetic changes, such as painted walls, new carpet and tinted windows were made to the building to increase employee morale and provide a more desirable working environment. New workstations and personal computers were also provided to Revenue Operations employees.

In conjunction with BPR, KRC designated Revenue Operations to participate in a personnel pilot project authorized by KRS 18A.400-450, passed during the 1994 Regular Session of the Kentucky General Assembly. The objectives of the pilot are to redesign the tax return process workflow, develop a new classification system, establish a training curriculum and revise the compensation plan, including evaluations, promotions, performance bonuses and incentive pay for all merit Revenue Operations employees.

KRC management began the process by soliciting from all division employees ideas and information on how to improve working conditions, staff morale and tax processing. KRC's Human Resources Branch obtained information relating to compensation earned by employees doing similar processes in 15 other states. This information was used in assembling both the personnel pilot project and the BPR project.

The Personnel Cabinet reallocated Revenue Operations employees in grades four through nine into categories in a class entitled *revenue processor*. The new classifications became effective June 16.



Employees receive specific in-house training, along with on-the-job cross-functional training. Employees receive a certificate of merit after obtaining 200 hours of training, including internal courses, Governmental Services Center seminars and outside vendor courses. Thirty hours of training per year are required to be eligible for promotion, reclassification or other salary advancements.

A revised performance evaluation system will be used during the evaluation period. Once benchmarks are established and savings are determined, the incentive pay system will be implemented. A longevity bonus was also established.

KRC expects that the personnel pilot project, in conjunction with the BPR project, will result in more efficient tax processing and more effective use of employees' time and talent. KRC also expects to benefit from better-satisfied and empowered workers. By improving productivity, employee morale and working conditions, benefits are realized by employees, all of state government and Kentucky taxpayers.

KRC Implements Compliance and Receivables System

In keeping with its commitment to update business functions, enhance taxpayer assistance and im-

prove compliance activities and employee efficiency and productivity, KRC implemented the compliance and receivables system (CARS) on July 1, 1995.

CARS is the largest interrelational database of its kind in Kentucky state government and is the central repository of all accounts receivable information for taxes, interest, fees and penalties owed to KRC. CARS also processes returns and payment transactions for approximately 45 types of taxes. It interfaces with KRC's online system for the collection of accounts receivable (KY OSCAR) database to allow both systems to operate as one system with two points of entry.

CARS is much more than a replacement for the previous accounts receivable system which had been in existence since 1977. Listed below are KRC's previous work restrictions and the improvements resulting from the implementation of CARS:

Handwritten audit reports with mathematical functions and calculations made by employees were completed. The report(s) and a copy of the taxpayer bill of rights were mailed to the taxpayer with a typed letter of explanation. A separate notice of tax due detailing tax, interest, penalty and fee was then mailed to the taxpayer. Duplication of bills was possible in this manual paper environment.

CARS provides eight online audit report formats with customized printing for all tax types. CARS performs mathematical functions including the calculation of tax, interest, fees and penalties. All adjustments and explanations are entered online, eliminating the need for a typed letter of explanation. Audit reports are approved online by supervisors. The audit report becomes the "notice of tax due" and is mailed as one document, with a remittance stub attached, to the taxpayer. Overpayment audit reports can also be generated. Edits prevent the duplication of records. When an audit report is created it is immediately available for inquiry on CARS, which enhances the level of communication within KRC.

Separate mailings of handwritten audit report(s) and notice(s) of tax due were required under the old system.

CARS eliminated these separate mailings by combining the audit report and notice of tax due into one "notice of explanation" which is mailed to the taxpayer.

With implementation of the planned combined mailings, separate mailings of each notice are eliminated with CARS, and all notices (i.e., sales tax, withholding tax, corporation tax) within a case going to the same address are mailed together. This reduces mailing costs and the chance of lost mailings.

With limited information provided on the old notices of tax due, employees were forced to requisition paper document files to determine why a notice was issued. Responsibility for the bill could not be determined until the file was received. A request for an amount due on a future date required manual computation by an employee. These delays hampered effective taxpayer service.

CARS provides KRC employees an online view of each audit report bill detail. This allows employees to view the information the taxpayer received and eliminates the need to pull the file to respond to taxpayer inquiries. The audit report also identifies the responsible employee and provides an online bill history to identify each activity on the bill, along with the responsible employee. A taxpayer's account can be viewed in a bill-by-bill or summary format. Entry of in-house history comments to track taxpayer contact with KRC employees is also provided. When an employee views an account in CARS, it shows the amount the taxpayer currently owes and allows the projection of all interest, fees and penalties to a future date. This allows more efficient response to taxpayer inquiries.

Adjustments to previous audit reports required a new audit report to be completed by the employee and a new letter of explanation. A form was also required to be completed and data entered to change the previous accounts receivable system, including the demographics of a notice. Considerable time elapsed before the change was reflected in the system.

CARS provides online audit reports, demographics, taxpayer identification number and case/account maintenance functions with online maintenance approval. The maintenance is *real time*, allowing efficient and more timely responses to taxpayers. Employees are alerted online when a payment is received on a bill pending maintenance or maintenance approval. General correspondence letters can be generated online to advise a taxpayer when a bill has been paid in full or withdrawn.

Advancements

When an unhonored check was received on a bill in the old system, the bill continued to show credit for the payment and a new notice was issued for the amount of the unhonored check plus applicable penalty and interest.

CARS has streamlined the unhonored check process through a joint effort with Treasury. The entire process is now performed online. The system identifies unhonored checks applied to CARS bills and removes the amount from total credits. The taxpayer is issued a corrected bill and an additional bill for the unhonored check penalty.

While employees in the Division of Collections performed online maintenance functions in OSCAR, other KRC employees performed maintenance functions in a manual paper environment. Communication among divisions concerning taxpayer accounts was limited by this difference.

CARS allows employees using OSCAR to interface with CARS to access up-to-date information. OSCAR users now transfer to CARS from OSCAR to perform maintenance functions. With all KRC employees now accessing the same updated information, the margin for error decreases and the service to taxpayers is improved.

KRC Implements Business Recovery Plan

KRC recognizes the need to preserve and secure the agency's information needs and processes. A business recovery plan (BRP) is one step toward the satisfaction of that task. The plan's primary goals are to ensure the safety and well-being of KRC employees, and to protect the mission-critical operations of the Cabinet.

An *emergency condition* is a situation which creates a threat or impending threat to public health, welfare or safety such as a fire, flood, tornado, or other natural or man-caused disasters such as riot, enemy attack, sabotage, explosion, power failure, energy shortage or equipment failure. An *emergency condition* creates an immediate and serious need for services, construction, or items of tangible personal property that cannot be met through normal procurement methods and the lack of which seriously threatens the function-

ing of government, the preservation or protection of property, or the health or safety of any person. The initial determination that an emergency condition exists is made by KRC's secretary or a designated representative.

A steering committee, composed of upper management personnel, and a business recovery (BR) project team were established. Program support members representing functional areas of KRC were included to assist with the completion of a business impact analysis survey (BIAS). The Department for Military Affairs, Division of Disaster and Emergency Services (DES), the Department for Information Systems, and the Department for Libraries and Archives provided input and staff support as needed.

In late February, the BIAS was distributed throughout KRC to identify the division and branch programs, hardware, software, agency inter- and intra-action(s), legal and compliance requirements, and state dollars that would ultimately be affected by an interruption of business because of an emergency. In April, interviews were conducted to identify the tasks beyond the mission. Staff, equipment, PCs, and telephone and communication needs were documented. Based on the compilation of that information, recommendations were determined by the BR project team.

Some efforts toward notifying employees of emergencies have been made. Smoke alarms were installed at the Division of Revenue Operations at Perimeter Park. Bullhorns were purchased for the Division of Collections at 100 Fair Oaks and Perimeter Park. DES staff members visited the Frankfort facilities to help develop severe weather procedures. Phone stickers were printed so emergency numbers are readily accessible to each employee. Other needs are determined, but training is not yet developed for these situations, such as workplace violence.

In June, the BR project team submitted a plan for review to the steering committee. The plan is general in nature, not geared specifically toward any particular emergency situation. Training and exercising of business recovery and emergency response procedures are instrumental to the completion and success of the plan.

Motor Vehicle Valuation Method Changes

In 1995, a class action lawsuit was filed challenging KRC's valuation of motor vehicles for ad valorem property tax purposes using the retail value found in the National Automobile Dealers Association (NADA) guide. The lawsuit alleged the use of retail value prescribed by the *NADA Official Used Car Guide* was too high and, therefore, in excess of fair cash value. The assessment of fair cash value for property tax purposes is required by the Kentucky Constitution and is an estimation of the price a willing buyer and willing seller would agree upon. The plaintiffs alleged the trade-in value found in the *NADA Official Used Car Guide* was the fair cash value of motor vehicles, rather than the retail value.

As a result of negotiations between KRC and the plaintiffs, a settlement was agreed upon and accepted by the Franklin Circuit Court in November 1995. The settlement establishes car values at the midpoint between the retail and trade-in values as determined in the NADA guide. This new valuation method was applied to motor vehicles assessed for property tax purposes as of Jan. 1, 1996.

This settlement gives taxpayers tax relief of approximately \$24 million per year.

A Review of Tax Law Changes Enacted by the 1996 General Assembly

The 1996 Kentucky General Assembly created, amended or repealed numerous statutes during its recently completed regular session. Approximately 1,650 bills and resolutions were introduced and almost 400 were enacted. The bills relating to taxation are described in this review together with a description of several other bills which impact KRC. Unless otherwise indicated, the changes are effective July 15, 1996.



Following is a summary of the most significant bills relating to taxation enacted by the 1996 General Assembly:

House Bill 321 expands the industrial supply/industrial tool sales and use tax exemption to include an individual or entity that performs an industrial or manufacturing process on another person's property.

House Bill 322 increases the threshold for making estimated tax payments from \$200 of income tax liability to \$500.

House Bill 397 phases out the health care provider tax on physician services over a three-year period.

House Bill 416 repeals the bank shares property tax and enacts a bank franchise tax for state tax purposes and a local deposits franchise tax for local tax purposes.

House Bill 442 updates the Kentucky income tax reference to the Internal Revenue Code (IRC) to the code in effect on Dec. 31, 1995.

House Bill 547 increases over a period of four years the income tax standard deduction from \$650 to \$1,700 in the 2000 tax year. After 2000, the standard deduction will rise in proportion to annual cost of living increases based upon the Consumer Price Index (CPI).

House Bill 599 prohibits affiliated corporations from filing combined Kentucky corporation income tax returns using the unitary business concept and allows affiliated corporations to elect to file consolidated Kentucky income tax returns, with such election being binding for eight years.

In the following review, the enacted bills are grouped by tax type with House bills listed first and Senate bills following. Bills referencing multiple taxes are listed under each tax type with a description of the relevant portion of the bill. Bills applicable to general tax administration are summarized in a separate section.

Income and Franchise Taxes

House Bill 442 amends KRS 141.010 to update the Kentucky income tax reference to the IRC to the code in effect on Dec. 31, 1995, for taxable years beginning after that date. Because the U.S. Congress made only minor changes to the IRC during the past two

Legal Issues

years, adoption of the code in effect on Dec. 31, 1995, will result in only a few changes for Kentucky income tax purposes. These changes include:

Dollar limits for certain employee benefits will increase, including the maximum amount that can be contributed to certain retirement plans. Individuals contributing to retirement plans will calculate their deductions differently because of a change in the rounding rules for Cost of Living Adjustments.

The documentation requirement for certain business expenses has been raised from the current \$25 to \$75 per day.

Self-employed individuals will be allowed to deduct 30 percent of health insurance premiums.

The deductibility of expenses for hazardous waste cleanup, professional organization dues and public service organization dues has been clarified; but additional records must be kept.

Documentation requirements for certain payroll-deducted charitable contributions have been clarified to reduce the burden on individuals making contributions.

In addition to the changes noted above, House Bill 442 also extends to recipients of private disability pensions and annuities the same exclusion afforded to other recipients for Kentucky income tax purposes.

House Bill 322 amends KRS 141.300 to increase to \$500 the current \$200 amount of income tax liability required before estimated tax payments must be made.

House Bill 416 amends numerous chapters of the Kentucky Revised Statutes and creates a number of new sections of Chapter 136 to replace the current bank shares property tax with a bank franchise tax. The bank franchise tax is imposed on any financial institution which obtains or solicits business from 20 or more persons within the commonwealth or has receipts attributable to sources in the commonwealth which equal or exceed \$100,000. The bank franchise tax is based on a five-year average of net capital accounts reflected on the quarterly reports of condition filed with the applicable federal regulatory institution. The minimum tax is \$300 per year. Because House Bill 416

is effective for the calendar year 1996, the first tax returns and payments will be due on March 15, 1997. An extension of the filing date, but not the payment date, may be requested.

House Bill 519 amends KRS 141.0101 to include a definition for Section 338 property and to grant an extended transition period for such property if the amount in transition is at least \$5 million.

House Bill 547 amends KRS 141.081 to increase the current \$650 standard deduction for individuals. The standard deduction will increase to \$900 for the 1997 tax year, \$1,200 for 1998, \$1,500 for 1999, and \$1,700 for the 2000 tax year. For the tax year 2001 and every year thereafter, the standard deduction will be indexed to the CPI.

House Bill 599 amends KRS 141.120 to prohibit the filing of combined corporation income tax returns under the unitary business concept. The bill also amends KRS 141.200 to allow an affiliated group of corporations to elect to file a consolidated Kentucky corporation income tax return whether or not a consolidated federal corporation income tax return is filed. *Affiliated group* means affiliated group as defined in Section 1504(a) of the IRC and related regulations. *The bill is effective for tax years ending on or after Dec. 31, 1995.*

House Bill 655 creates new sections of KRS Chapter 58 to authorize local governmental agencies to issue energy conservation revenue bonds to pay for energy saving improvements to buildings they own or operate. For the holder of the bond, the interest would be exempt for Kentucky income tax purposes.

House Bill 743 amends KRS 154.28-010, Kentucky Industrial Development Act (KIDA), to include in the definition of *economic development project* the acquisition of improvements or facilities on land possessed by an approved company pursuant to a ground lease having a term greater than 59 years. Lease payments are not eligible for tax credits under the program and the amount of tax credits available for equipping a facility are limited to \$10,000 per job created and maintained at the economic development project. The bill also amends KRS 154.22-070, Kentucky Rural Economic Development Act (KREDA), to reduce to 4 percent the current 6 percent Job Development

Assessment Fee (JDAF) employers can withhold from the gross wages of its employees. It eliminates the credit against local occupational license fees and creates a new section of KRS 154.22-070, KREDA, to allow an approved company that currently assesses a 6 percent job development assessment fee to reduce the fee to 4 percent, subject to certain provisions, provided that the company receives approval by June 30, 1997.

Senate Bill 88 requires the Legislative Research Commission (LRC) to complete a study by July 31, 1997, regarding clean-fuel vehicles, clean-fuel refueling property, and the possibility of an income tax credit to promote clean-fuel vehicles and clean-fuel refueling property.

Senate Bill 219 limits the JDAF approved companies may withhold under the KREDA, KRS 154.22-010 to KRS 154.22-080, and the Kentucky Jobs Development Act (KJDA), KRS 154.24-010 to 154.24-150, to 4 percent of the employee's gross wages and grants affected employees a refundable credit against his or her Kentucky income tax liability equal to the JDAF withheld. (Currently, approved companies may withhold up to 6 percent from the gross wages of employees, two-thirds of which may be credited against Kentucky income taxes and one-third of which may be credited against local occupational license fees.) This bill also provides that companies approved under KIDA, KRS 154.28-010 to 154.28-100, may impose a JDAF of 2 percent of the employee's gross wages in lieu of the income tax credit provided in KRS 154.28-090.

Motor Fuels Taxes

Senate Bill 88 amends KRS 138.348 and 138.344 to remove the requirement that gasoline and special fuels eligible for refunds be purchased in individual shipments of 50 gallons or more. The bill also requires LRC to complete a study by July 31, 1997, regarding clean-fuel vehicles, clean-fuel refueling property, and the possibility of an income tax credit to promote clean-fuel vehicles and clean-fuel refueling property.

Property Taxes

House Bill 229 amends KRS 142.050 to provide a proportionate real estate transfer tax exemption for interests transferred from an individual to an entity (corporation, partnership or limited liability company)

and, in the case of dissolution of an entity, the proportionate interest transferred to an individual, if the transfer is for nominal consideration. It also exempts transfers to a trustee, to be held in trust, or from a trustee to a beneficiary if the grantor is the sole beneficiary or if a direct transfer from the grantor to all other individual beneficiaries would have qualified for an exemption. *The bill became effective Feb. 29, 1996.*

House Bill 234 amends KRS 75.015 to require separate property tax bills and accounting for fire protection subdistricts (which were authorized by the 1994 General Assembly).

House Bill 379 provides reduced property tax rates for noncommercial aircraft if the Secretary of the Economic Development Cabinet certifies that a written commitment has been received for an investment of at least \$20 million in relocating a corporate headquarters in Kentucky which will retain at least 250 existing jobs and create at least 600 new jobs. Notwithstanding KRS 132.020 and KRS 132.200, the state tax rate on all noncommercial aircraft will be reduced from 45 cents to 1.5 cents per \$100, and cities and counties will be authorized to set a lower rate or exempt non-commercial aircraft. *The effective date will depend on the date of the certification.*

House Bill 416 repeals KRS 136.270, 136.275 and 136.280, the bank shares property tax, and creates a bank franchise tax. (See the Income Tax Section of this summary for information about the new franchise tax.) A new section of KRS Chapter 136 authorizes cities and counties to levy a local deposits franchise tax. The bill also amends KRS 132.020 to set a tax rate of one-tenth of 1 cent per \$100 on the intangible assets of financial institutions. KRS 132.030, 132.040 and 132.220 are amended to make the tax rate on bank deposits one-tenth of 1 cent for both in-state and out-of-state deposits and to change the Sept. 1 assessment date to Jan. 1. The amendment of KRS 132.220 also changes the assessment date for unmanufactured tobacco from Sept. 1 to Jan. 1. Amendments to KRS 132.285, 132.590 and 134.290 provide that the city and county funding for property valuation administrators' (PVA) offices and the state and county collection commissions for sheriffs' offices will not be less for 1996 and subsequent years than the 1995 amounts. *The bill is effective for the 1996 tax year.*

Legal Issues

House Bill 485 creates a new section of KRS Chapter 132 to modify the point-based compensation system for PVAs. Grades 7-10 are eliminated, Grade 16 is added, and the number of points required for each grade is revised. The base salary will be the mid-point of each grade rather than the beginning of the grade. Appropriations of \$608,000 and \$632,500 for each of the fiscal years were approved in the budget. The bill also amends KRS 132.590 to provide that assessment work units for staffing and funding comparison purposes be based on parcel count per employee.

Senate Bill 143 removes obsolete language from KRS 132.260 relating to personal property held in storage and the keeping of records by mobile home park operators. However, the annual mobile home report to the PVA will still be required.

Senate Bill 160 amends KRS 134.805 to provide that when the property tax on a motor vehicle is delinquent for 60 days, a second notice will be sent to the Jan. 1 owner. The bill also amends KRS 134.810 to provide that the 3 percent penalty on delinquent motor vehicle taxes shall be waived if the tax is paid within five days of becoming delinquent.

Senate Bill 179 creates a 30-member task force composed of representatives from the legislature, state agencies, local governments, and the public to study local government taxing structures and procedures. The task force will begin its work in August 1996, and submit its recommendations to LRC in August 1997.

Sales and Use Tax

House Bill 260 amends KRS 139.480 to exempt from sales and use tax llamas and alpacas to be used as beasts of burden or in an agricultural pursuit for the breeding and production of hides, breeding stock, fiber and wool products, meat, and llama and alpaca by-products. The bill further exempts various items used in this pursuit: feed, feed additives, insecticides, fungicides, herbicides, rodenticides, farm chemicals, on-farm facilities including equipment, machinery, attachments, repair and replacement parts, watering, feeding, ventilation, and alarm systems, and any materials incorporated into the construction, renovation, or repair of the facilities.

The bill also amends KRS 139.480 to exempt embryos and semen used in the reproduction of

livestock from which products ordinarily constitute food for human consumption.

This bill provided that, upon approval by the governor, the exemption became retroactive to Jan. 1, 1980. The exemption will sunset on July 31, 2000. No refunds will apply to purchases made prior to April 10, 1996.

House Bill 303 amends KRS 139.050 and 139.130 to exclude from sales and use tax the amount allowed by a seller to a purchaser for property traded when the property traded is of like kind and character to the property purchased and the property traded is held by the seller for resale.

House Bill 321 amends KRS 139.470 to provide that the industrial supplies exemption applies to an individual or entity that performs a manufacturing or industrial process when that individual or entity does not take title to the property. *This bill is effective Jan. 1, 1996.*

House Bill 375 amends KRS 139.470 to exempt from the sales and use tax any water user fee paid or passed through to the Kentucky River Authority by facilities using water from the Kentucky River basin.

House Bill 617 amends KRS 139.340 to provide that the term "retailer engaged in business in this state" includes any retailer soliciting orders for tangible personal property from residents of this state on a continuous, regular, systematic basis if the retailer benefits from an agent operating in this state under the authority of the retailer to repair or service tangible personal property sold by the retailer.

House Bill 815 creates several new sections of KRS Chapter 154 to establish an economic development incentive program and a sales tax credit for creating new or expanding existing tourism attractions within the commonwealth. To qualify, the applicant must obtain from an independent consulting firm a determination that, in their judgment, the project would generate at least 25 percent of its revenues from individuals who are not residents of Kentucky, have costs in excess of \$1 million, have a significant and positive economic impact on Kentucky, be open to the general public 100 days per year, and not adversely affect existing employment in the state.

Upon final approval of the project by the Kentucky Economic Development Finance Authority, the approved company will be allowed a sales tax credit up to 25 percent of the approved costs. The credit shall accrue over a 10-year term in an annual amount equal to 2.5 percent of the approved costs. Any unused accrued credit from a previous year may be carried forward to any succeeding year during the 10-year term.

The agreement granting this credit shall not exceed 10 years and will commence on the date of final approval or the completion date specified in the agreement, if the completion date is within two years of the date of the final approval of the project. On Oct. 1 of each year, KRC will certify to the Authority and the Secretary of the Tourism Development Cabinet the sales tax liability of all approved companies receiving inducements and the amount of any sales tax credits taken under the bill.

Miscellaneous Taxes and Fees

House Bill 397 creates and amends various sections of KRS Chapter 142 to phase out the health care provider tax on physician services. The current 2 percent tax rate will be reduced to 1.5 percent from Aug. 1, 1996, through June 30, 1997; 1 percent from July 1, 1997, through June 30, 1998; and 0.5 percent from July 1, 1998, through June 30, 1999. The tax on physician services will be entirely removed as of July 1, 1999. *The bill is effective Aug. 1, 1996.*

Senate Bill 137 creates and amends various sections of KRS Chapter 438 relating to the Department of Agriculture's enforcement of laws relating to the use, display, sale and distribution of tobacco products. It also provides that one-tenth of 1 cent per package of the Kentucky cigarette excise tax shall be transferred to the Department of Agriculture to offset its costs of enforcement. *The bill became effective on March 5, 1996.*

Equine Drug Research Funding: Effective at the close of the current fiscal year budget (June 30, 1996), equine drug research money will no longer be deducted from the pari-mutuel tax of a receiving track or from telephone account wagering.

All Taxes or General

House Bill 319 amends KRS 131.130 to allow KRC to prescribe forms necessary for the administration of any revenue law by incorporating the forms by refer-

ence in an administrative regulation promulgated pursuant to KRS Chapter 13A.

House Bill 321 amends KRS 134.580 to provide that the date prescribed by law for filing a return includes any extensions granted for filing that return. Therefore, the statute of limitations for filing refund claims will start with the date prescribed for filing the return as extended rather than the original date prescribed for filing the return. Various other statutes were also amended to conform to this change. In addition, House Bill 321 amends KRS 131.500 and 134.420 to provide that a tax lien for taxes other than property taxes will remain in force for 10 years from the date it is filed. *The bill is effective for taxable years beginning after Dec. 31, 1995.*

Senate Bill 352 creates a new section of KRS Chapter 131 to list situations sufficient to cause a taxpayer who holds a license under KRS Chapter 243 to be classified as a *delinquent taxpayer* and allows KRC to submit the name of the delinquent taxpayer to the Department of Alcoholic Beverage Control for revocation of any license issued under Chapter 243. The bill requires KRC to notify delinquent taxpayers 20 days before submitting their names to the Department of Alcoholic Beverage Control. The bill also amends KRS 243.490 to provide that no alcoholic beverage license may be granted to a delinquent taxpayer.

House Bill 413 creates and amends various sections of KRS Chapter 7 to establish, through LRC's electronic database, a free public database with an official version of the Kentucky Revised Statutes, the Kentucky Constitution, the Kentucky Acts and administrative regulations.

House Bill 441 amends KRS 131.355 to authorize the Kentucky Board of Tax Appeals to use hearing officers to conduct hearings on appeals. *This bill became effective April 4, 1996.*

Senate Bill 59 creates a new section of KRS Chapter 48 and amends KRS 48.120 to require the use of consensus revenue forecasting by a consensus forecasting group for General Fund and Road Fund official revenue estimates. If the group cannot agree on a forecast, the official revenue estimates will be provided by the Finance and Administration Cabinet. KRC will make revenue data available to the consensus forecasting group.

Legal Issues

Division of Legal Services Court Decisions and Developments

The Division of Legal Services handles a substantial number of cases presenting a variety of issues arising under Kentucky's tax laws. The division continues to experience an increase in both the complexity of the tax issues and amount of money at stake in the cases.

The division represents KRC in tax cases before the Kentucky Board of Tax Appeals (KBTA) and the state and federal courts. This representation includes handling all phases and levels of tax litigation, including trials, administrative hearings and appeals. The division also handles KRC's personnel litigation and related matters.

In addition to its litigation responsibilities, the Division of Legal Services performs a number of other duties and functions. These duties and functions include providing legal advice to KRC personnel as to the proper interpretation of the tax laws, preparing legal opinions for both taxpayers and KRC personnel, participating in taxpayer protest conferences, drafting and reviewing KRC policies and proposed legislation and regulations.

The cases handled by the Division of Legal Services often address significant issues or result in precedents of great importance to both the taxpayers and the commonwealth. Cases of significance to KRC and to taxpayers which were resolved this fiscal year are listed below along with those significant cases which remain pending.

St. Ledger v. Commonwealth, **Kentucky Supreme Court**

This case presents constitutional challenges to KRS 132.020 and 132.030, which apply a one-tenth of 1 cent per \$100 property tax rate on bank deposits "in any bank, trust company, or combined bank and trust company organized under the laws of this state, or in any national bank of this state" and a 25 cents per \$100 property tax rate on all other bank deposits; and KRS 136.030, which exempts from property tax shares of stock in corporations that pay property taxes to Kentucky on at least 75 percent of their total property, wherever located. The taxpayers in this class action invoked various state and federal constitutional provi-

sions in support of their claims—the U.S. Constitution's commerce and equal protection clauses and §§ 3 and 171 of the Kentucky Constitution.

The Kentucky Supreme Court held that the bank deposits property tax system created by KRS 132.020 and 132.030 was unconstitutional under the commerce clause. The court rejected the contentions that this system was invalid under the equal protection clause or §§ 3 and 171 of the Kentucky Constitution. Disagreeing with the Court of Appeals, which had upheld these statutes, the court held that out-of-state bank deposits were interstate commerce and protected by the commerce clause. The court further held that KRS 132.020 and 132.030 foreclose tax-neutral decisions and create both an advantage for Kentucky banks and a discriminatory burden on commerce (i.e., banks) of Kentucky's sister states. The court further held that the taxpayers were "entitled to apply for refunds pursuant to KRS 134.590."

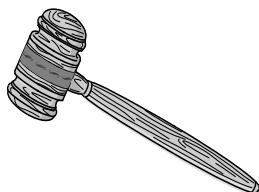
The Kentucky Supreme Court upheld KRS 136.030, however. The court specifically relied upon the U.S. Supreme Court's decision in ***Darnell v. Indiana***, 226 U.S. 390, 33 S.Ct. 120, 57 L.Ed. 267 (1912).

The taxpayers petitioned the U.S. Supreme Court for review of the Kentucky Supreme Court's decision on KRS 136.030. The U.S. Supreme Court on May 20, 1996, granted *certiorari*, vacated the Kentucky Supreme Court's judgment and remanded the case to the Kentucky Supreme Court for reconsideration of its decision in light of ***Fulton Corp. v. Faulkner***, 516 U.S. ___, 116 S.Ct. 858, ___ L.Ed.2d ___, 64 U.S.L.W. 4088 (1996). The case is presently on remand before the Kentucky Supreme Court.

Gillig v. Revenue Cabinet, **Kentucky Supreme Court**

In this case, the taxpayers filed an action in Franklin Circuit Court questioning the constitutionality of the method of assessing unmined coal for property taxation purposes employed by KRC for 1989, 1990 and 1991. This method was an interim one, to be used pending the implementation of a Geographic Information System approach. The interim method was based upon a self-reporting approach using an informational tax return sent to owners of unmined coal, coal operators, lessees and permit holders.

Invoking Ky. Const. § 172 and relying on *Dolan v. Land*, Ky., 667 S.W.2d 684 (1984), the taxpayers contended that the interim approach failed to take into account a number of factors in the assessment of the unmined coal. The Court of Appeals agreed, rejecting KRC's arguments that the taxpayers had failed to demonstrate that their unmined coal properties were in fact overvalued; that the interim method provided a fair estimate of fair cash value; and that the taxpayers could establish the effect of any particular factor upon their properties' assessments or valuations via the protest and appeal procedure prescribed in KRS Chapter 131.



KRC's motion for discretionary review of the Court of Appeals' decision was granted.

***Revenue Cabinet v. Lyon County Fiscal Court,* Franklin Circuit Court**

The Franklin Circuit Court ruled that KRC's equalization increase of 8 percent to the aggregate assessment of property in Lyon County for tax year 1994 should be upheld. The circuit court reversed the decision of the KBTA which held that the increase was unlawful. The circuit court ruled that the fiscal court had not met its burden of proving that the 8 percent increase overvalued the aggregate assessment of the property beyond its fair cash value. Motions to alter or amend the judgment are pending in the circuit court.

***Revenue Cabinet v. Blackberry Creek Coal Company,* Court of Appeals**

The Franklin Circuit Court upheld the ruling of the KBTA that the term *extended due date* refers to the date for filing returns including extended filing dates and that Kentucky has adopted the federal statute of limitations for the carryback of net operating losses which runs from the loss year, not the carryback year. KRC appealed this decision to the Court of Appeals where the issue has been briefed.

***Revenue Cabinet v. Humana, Inc.,* Franklin Circuit Court**

In this case, the taxpayers, for-profit hospitals, challenge the application of the sales and use tax exemptions provided for in KRS 139.472 for prescription medicine and prosthetic devices and physical aids. KRC determined that these exemptions did not apply to the purchases at issue in this case because the requirements prescribed in KRS 139.472(1)(a) and (2) were not met.

The KBTA granted the taxpayers' motion for summary judgment holding that the doctrine of contemporaneous construction precluded KRC from rectifying its previous interpretation of KRS 139.472, and because KRC's rescission of its previous policy violated KRS 13A.130. KRC appealed the KBTA's decision to Franklin Circuit Court.

***Pike County Board of Assessment Appeals v. Kelsey Friend,* Court of Appeals**

The Court of Appeals rejected the taxpayer's claim that KRS 132.195 exempts from property taxation leasehold interests of natural persons who are not making a profit from the leasehold interest. The court ruled that there is no constitutional exemption for privately held leasehold interests. The taxpayer's motion for discretionary review was denied.

***Revenue Cabinet v. Adams Stone et al.,* Court of Appeals (unpublished)**

The Court of Appeals decision upheld KRC's authority to centrally assess and tax unmined limestone for property tax purposes. The court held that if limestone added value to property, that value had to be taken into consideration. The Kentucky Supreme Court denied the taxpayers' motion for discretionary review, but ordered the Court of Appeals decision not to be published.

Legal Issues

USX v. Revenue Cabinet, Franklin Circuit Court

USX Corporation filed an action in Franklin Circuit Court seeking a judicial determination that the corporation license tax statute, KRS 136.071, is unconstitutional as a violation of the U.S. Constitution's commerce, due process and equal protection clauses and also a violation of various provisions of the Kentucky Constitution. Furthermore, USX seeks an order enjoining KRC from implementing the discriminatory provisions of KRS 136.071 which allow corporations with commercial domiciles in Kentucky (but not those with commercial domiciles outside Kentucky) to exclude, under certain circumstances, their investments in other corporations from the computation of their taxable capital. This case is currently in the pretrial stage.

Marcum v. Revenue Cabinet, Franklin Circuit Court

A class action lawsuit was filed in Franklin Circuit Court challenging KRC's valuation of motor vehicles for property tax purposes pursuant to the National Automobile Dealers Association (NADA) guide. The lawsuit alleged that the use of the retail value prescribed by the guide was too high and in excess of fair cash value. The taxpayers alleged that the trade-in value was the fair cash value. As a result of negotiations, a settlement was agreed upon and accepted by the circuit court. The settlement established the valuation of automobiles at the midpoint between the retail and trade-in values as determined by the NADA guide. This new value was applied to the 1996 assessments. The agreement contained a stipulation that no refunds would be issued for prior years.

KRC

Administration

Administrative Expenditures

KRC's administrative costs for Fiscal Year 1995-96 totaled \$55,527,601 including Capital Construction Funding for major equipment purchases of \$909,305. The year-end General Fund operating lapse for Fiscal Year 1995-96 amounted to more than \$400,000, which was accumulated through personnel vacancy credits. Also lapsed at year-end were Capital Constructions Funds of nearly \$200,000, due to completion or close-

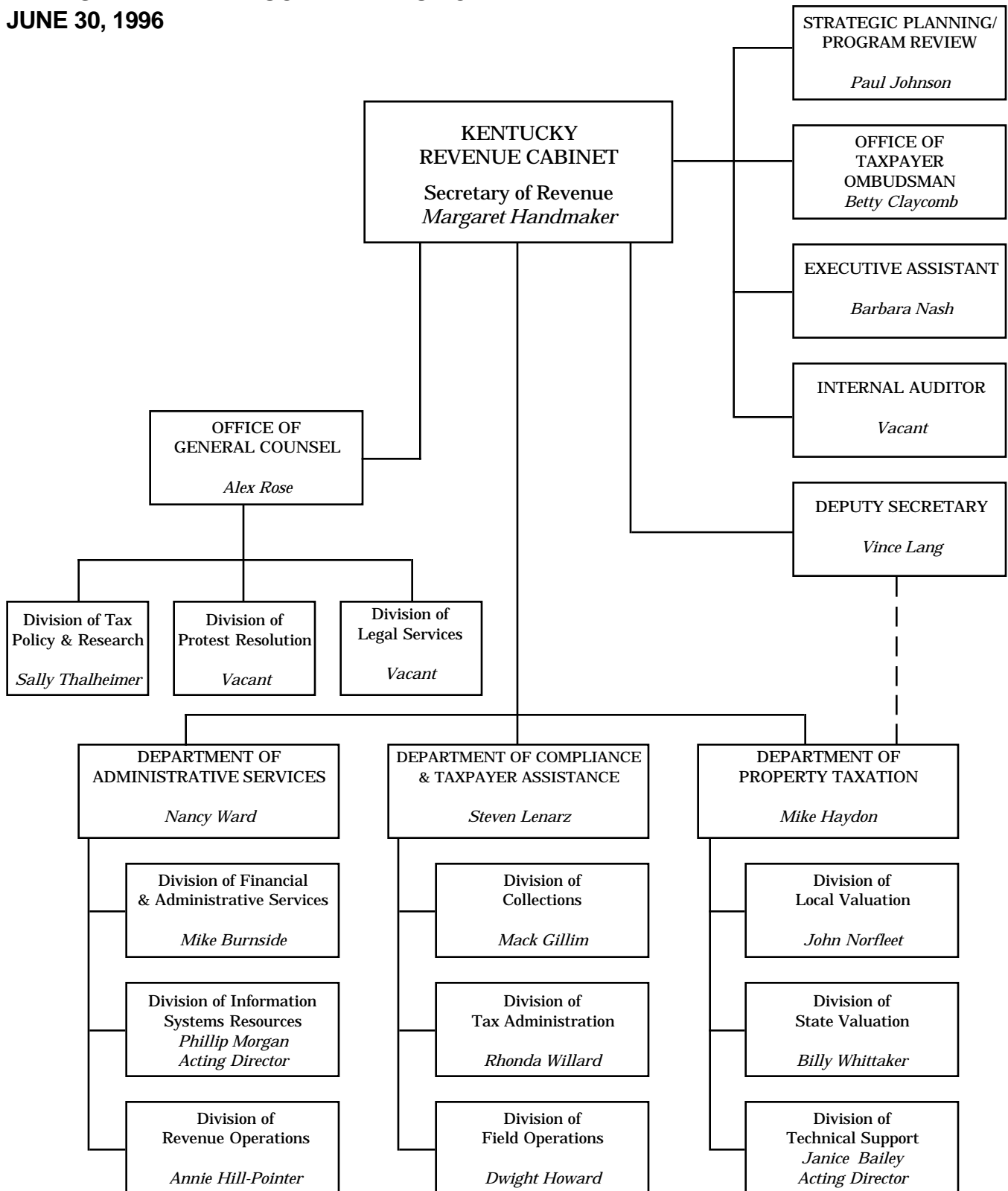
out of five previously authorized major equipment projects.

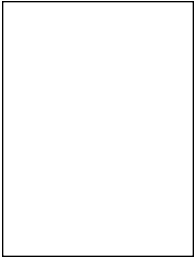
At the close of Fiscal Year 1995-96, KRC had 1,015 permanent full-time employees, down 10 positions from the year before. The budgeted personnel cap for Fiscal Year 1996-97 is 1,050. Approximately 150 seasonal employees were hired throughout the year to support on-going operations.

ADMINISTRATIVE COSTS, FISCAL YEAR 1995-96

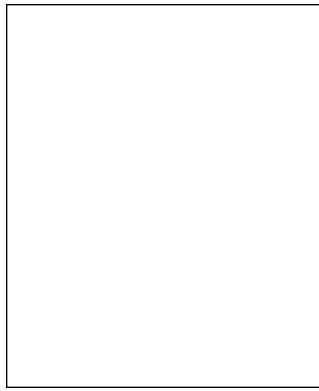
	General Fund	Agency Fund	Road Fund	Federal Fund	Total
Salaries full-time (inc. benefits)	\$ 32,101,536	\$ 1,417,345	\$ 904,859	\$50,000	\$34,473,740
Seasonal employees	1,252,676	0	0	0	1,252,676
Overtime/block 50's	513,893	662	4,186	0	518,741
Other personnel costs	591,737	6,375	655	0	598,767
Total Personnel	\$34,459,842	\$1,424,382	\$ 909,700	\$50,000	\$36,843,924
Utilities	\$ 241,542	\$ 22,877	\$ 657	\$ 0	\$ 265,077
Rent/rentals/carpool	2,476,258	76,944	36,003	0	2,589,204
Maintenance and repairs	524,817	16,694	1,443	0	542,954
Postage	2,145,088	254,259	287,233	0	2,686,579
Printing/other services	1,617,575	551,542	3,666	0	2,172,783
Telecommunications	357,883	1,624	319	0	359,826
D.I.S.costs	5,079,365	417,794	0	0	5,497,159
Supplies	501,211	619	492	0	502,322
Commodities/furniture	467,143	559	32,643	0	500,344
Software/telephone equipment	333,951	0	870	0	334,821
Travel	1,063,104	2,030	47,503	0	1,112,637
Filing/lien/collection fees	65,594	68,414	0	0	134,008
Dues/subscription/other	411,279	10,326	27,478	0	449,083
Total Operating	\$15,284,811	\$1,423,682	\$ 438,306	\$ 0	\$17,146,798
Furniture/fixtures/equipment	\$ 309,728	\$ 0	\$ 0	\$ 0	\$ 309,728
Computer equipment	309,847	8,000	0	0	317,847
Total Capital Outlay	\$ 619,575	\$ 8,000	\$ 0	\$ 0	\$ 627,575
Total Administrative Costs	\$50,364,228	\$2,856,063	\$1,348,006	\$50,000	\$54,618,296
Capital Construction Project Funding -Major Equipment Purchases	\$909,305	\$ 0	\$ 0	\$ 0	\$ 909,305
Total Funds	\$51,273,533	\$2,856,063	\$1,348,006	\$50,000	\$55,527,601

MANAGEMENT—KENTUCKY REVENUE CABINET
JUNE 30, 1996

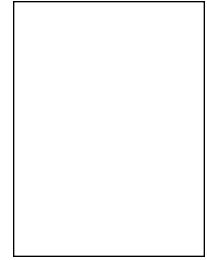




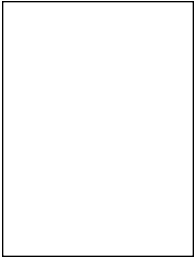
J. Bailey



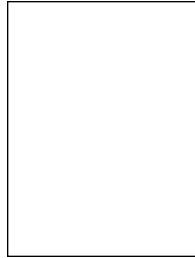
Secretary Margaret Handmaker



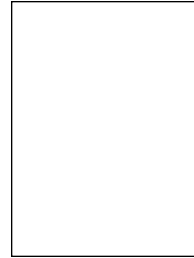
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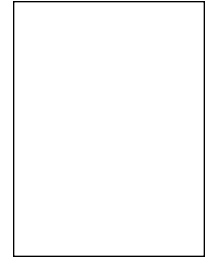
B. Claycomb



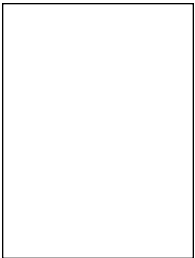
M. Gillim



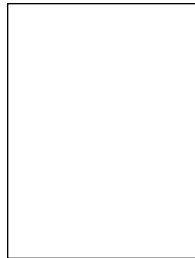
M. Haydon



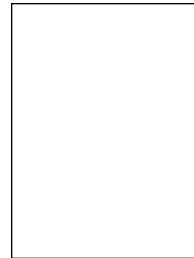
A. Hill-Pointer



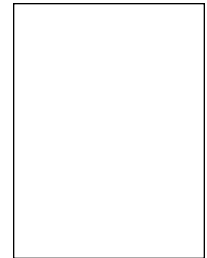
D. Howard



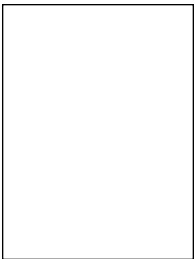
P. Johnson



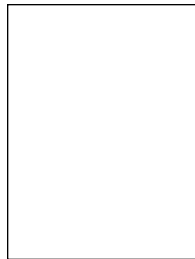
V. Lang



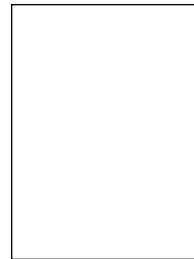
S. Lenarz



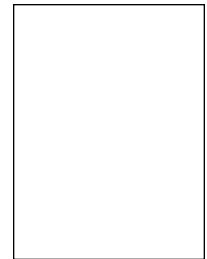
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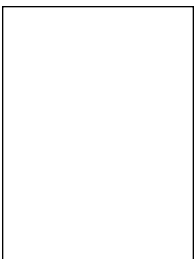
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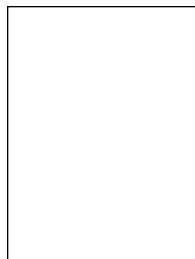
J. Norfleet



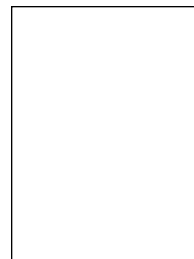
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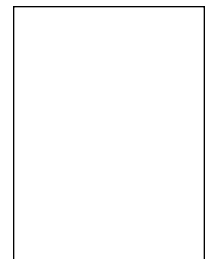
S. Thalheimer



N. Ward



B. Whittaker



R. Willard

KRC

Administration

Top Management Appointments

On *Sept. 1, 1995*, Sally Thalheimer was appointed director of the Division of Tax Policy and Research.

Thalheimer, a 24-year KRC veteran, has held positions as a tax examiner, auditor, revenue hearing officer, supervisor of the Audit Selection Section, tax consultant responsible for the development of compliance programs, and deputy commissioner within the Office of General Counsel.

During her career, Thalheimer has been involved in various compliance efforts, research and tax policy studies and projects, as well as legislative efforts and responsibilities.

She holds a bachelor of science degree in accounting from Eastern Kentucky University.

On *Jan. 1, 1996*, Margaret A. Handmaker was appointed KRC secretary by Governor Paul E. Patton. Prior to accepting her KRC appointment, Handmaker was managing director of the Louisville branch of William M. Mercer, Inc., an international management firm. She has also been a corporate and tax attorney for the law firm of Handmaker, Weber & Meyer; a faculty member at Triton College in Chicago; and a management consultant with Booz, Allen & Hamilton of Chicago.

Handmaker holds bachelor's degrees in business and economics from the University of Evansville, a master's degree in education from Indiana University, and a law degree from the University of Louisville.

She is a member of the Pikeville College Board of Trustees and is involved in many other civic and community activities in Louisville, where she lives.

On *Feb. 16, 1996*, Dwight Howard was appointed director of the Division of Field Operations.

Howard, a 26-year KRC veteran, began his career as a field representative in the Owensboro Taxpayer Service Center (TSC) in 1969. He was promoted to district manager of the Owensboro TSC in 1978. From 1985 through 1988 he served as the director of the Division of Collections. From 1988 until early 1996 he again served as district manager of the Owensboro TSC.

On *April 16, 1996*, Mike Haydon was appointed commissioner of the Department of Property Taxation. Haydon was assistant state treasurer at the time of his appointment, and has held numerous public service positions including 17 months as KRC deputy secre-

tary from August 1990 through December 1991. He is also an elected member of the nonpartisan Springfield City Council.

Haydon is a graduate of Western Kentucky University and is also a veteran of the U.S. Army.

On *April 16, 1996*, Billy Whittaker was appointed director of the Division of State Valuation. Whittaker is a 31-year KRC employee. He began his career as a field representative and has served as deputy commissioner of the Department of Property Taxation and director of the divisions of Local Valuation and Technical Support during his tenure. He served as commissioner of the Department of Property Taxation from July 1, 1995, until his appointment as director of State Valuation.

Whittaker holds a bachelor of science degree in commerce from Cumberland College.

On *June 1, 1996*, Mike Burnside was appointed director of the Division of Financial and Administrative Services.

Burnside came to KRC from Scott County High School, where he was the department head for aerospace science for two years. Prior to that, he held several positions with the U.S. Air Force including chief of Air Force programs for the U.S. Central Command, chief of operations for undergraduate pilot training at Williams Air Force Base, manager of program and budget development at Air Force headquarters at the Pentagon, and as an instructor pilot and flight evaluator. He served in the Air Force for 20 years and held the rank of colonel upon his retirement.

Burnside holds a bachelor of science degree in physical sciences from the U.S. Air Force Academy and a master of science degree in management from Troy State University.

On *June 1, 1996*, Vince Lang was appointed deputy secretary of KRC. Lang was county judge-executive of Hart County and had served in that office for 10 years before accepting his KRC appointment. While serving as county judge, Lang held leadership positions with several regional agencies and also served as president and legislative chairman of the Kentucky County Judge-Executives Association.

Lang earned a bachelor's degree in history from the University of Notre Dame.

KRC Administration

KRC Departments and Their Duties

The Kentucky Revenue Cabinet consists of 12 divisions, headed by the Office of the Secretary. The divisions are organized into three departments—Administrative Services, Compliance and Taxpayer Assistance and Property Taxation—and an Office of General Counsel.

Office of the Secretary

The Secretary of the Revenue Cabinet is the agency's top administrative official. The Office of the Secretary is established under Chapter 131 of the Kentucky Revised Statutes. The Secretary of the Revenue Cabinet is authorized under the statute to appoint assistants and personnel as necessary to perform functions of the office.

The Office of the Secretary includes the offices of Internal Audit, Strategic Planning/Program Review and Taxpayer Ombudsman. For administrative purposes, the Office of General Counsel is also attached to the Office of the Secretary.

The **Internal Audit** office is responsible for auditing the accounting, control and custodial activities of KRC to ensure compliance with applicable federal and state laws, administrative regulations, policies and procedures.

The **Strategic Planning/Program Review** office directs and coordinates the long-term planning of KRC and recommends strategies to achieve goals and objectives. The planner also coordinates work of the commissioners with respect to long-term planning and is responsible for guiding plan implementation throughout KRC.

The **Office of Taxpayer Ombudsman** is responsible for coordinating the resolution of taxpayer complaints and problems if requested by taxpayers or their representatives; recommending publications and education programs to improve voluntary compliance with Kentucky's tax laws; and otherwise ensuring the rights of taxpayers under KRS 131.041–131.081, the Kentucky Taxpayers' Bill of Rights.

Office of General Counsel

The Office of General Counsel administers KRC's tax policy and legal services, settles protested issues and performs tax research studies. It consists of the Division of Legal Services, the Division of Protest Resolution and the Division of Tax Policy and Research.

The **Division of Legal Services** represents KRC in administrative proceedings before the Kentucky Board of Tax Appeals and Personnel Board and in legal actions involving tax and a variety of other issues at every level of the state and federal court system. The division also performs a wide range of other services and functions which include rendering advice and written legal opinions to KRC personnel, other state government personnel and taxpayers concerning the state's tax laws as well as other relevant areas of the law; reviewing and drafting proposed statutes, regulations and circulars; analyzing tax law and assisting with the preparation of publications; and providing assistance and advice in protest conferences and prelitigation and investigatory matters.

The **Division of Protest Resolution** reviews and bills tax audits performed by the audit staffs of KRC's 11 taxpayer service centers. The division is responsible for responding to and resolving taxpayers' protests of the field audit adjustments and resulting tax assessments. In resolving protests, the division conducts conferences and issues final rulings upon request or whenever deemed necessary. The division is also required to resolve protests of office audits conducted by other taxing sections within KRC.

The **Division of Tax Policy and Research** is responsible for providing oral and written technical advice on Kentucky tax law; drafting proposed tax legislation, regulations, circulars and policy statements; testifying before legislative committees on tax matters; analyzing tax legislation; performing tax research and analysis; developing tax reporting forms; drafting and reviewing tax articles and publications; reviewing and approving final ruling letters; providing expert witnesses in tax litigation; providing consultation and assistance in protested tax cases; and conducting training and tax seminars.

KRC

Administration

Department of Administrative Services

The Department of Administrative Services assists KRC in personnel and fiscal services, training and development, communication services, information management, disclosure, security, returns processing and file storage. It consists of the Division of Financial and Administrative Services, the Division of Information Systems Resources and the Division of Revenue Operations, plus the Disclosure and Security sections which are attached to the commissioner's office.

The **Division of Financial and Administrative Services** provides office supplies and equipment, educational, budget and fiscal, personnel and communication services for KRC.

The **Division of Information Systems Resources** provides direction for development of information resource policies and offers overall technical support for information technologies used within KRC. The division also has responsibility for the efficient delivery of information services to support fulfillment of the agency mission and objectives.

The **Division of Revenue Operations** is responsible for receiving and processing revenues for deposit into the state treasury, registering firms for business taxes, processing tax returns and making additional assessments or refunds. This division also has responsibility for records management.

The **Disclosure Section** and the **Security Section** are attached to the commissioner's office. The Disclosure Section coordinates the disclosure of confidential tax information between state and federal agencies. The Security Section is responsible for physical and information security at all KRC locations.

Department of Compliance and Taxpayer Assistance

The Department of Compliance and Taxpayer Assistance administers KRC's taxpayer assistance, general tax administration, field operations, collections and criminal investigation efforts. It consists of the Division of Collections, the Division of Field Operations and the Division of Tax Administration, plus the Criminal Investigation Section which is attached to the commissioner's office.

The **Division of Collections** is responsible for the collection of delinquent taxes and the administration of collection-related compliance programs including Voluntary Disclosure and Offers in Settlement.

The **Division of Field Operations** is responsible for providing quality taxpayer service from the 11 taxpayer service centers. The centers provide taxpayer assistance and education, prepare returns, distribute forms, collect delinquent taxes and perform field audits. The division also provides instructors, develops training materials and coordinates training for most in-house tax schools.

The **Division of Tax Administration** is responsible for providing taxpayer assistance, administering taxes levied under the Kentucky Revised Statutes, managing compliance programs and conducting office audits.

The **Criminal Investigation Section** is attached to the commissioner's office. It is responsible for investigating and prosecuting violations of Kentucky's tax laws.

Department of Property Taxation

The Department of Property Taxation administers all property taxation matters. It is composed of the Division of Local Valuation, the Division of State Valuation and the Division of Technical Support.

The **Division of Local Valuation** is responsible for certifying property valuations submitted by property valuation administrators (PVAs), coordinating property tax collection and providing technical and administrative support to PVAs, county clerks, sheriffs, county attorneys and local taxing districts.

The **Division of State Valuation** is responsible for overseeing the assessment of intangible and tangible personal property, motor vehicles, public service company property and omitted personal property.

The **Division of Technical Support** is responsible for providing assistance to the 120 PVAs in the areas of mapping projects, mineral valuation and compliance, and computer technology.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1996)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Alcoholic Beverage Wholesale Sales Tax	KRS 243.884	9 percent of wholesale sales of distilled spirits, wine and malt beverages.	A wholesale sales tax on alcoholic beverage wholesalers/distributors to be reported monthly. There are statutory exemptions.
Beer Consumer Tax	KRS 243.720 et seq.	\$2.50 per barrel of 31 gallons.	An excise tax imposed on distributors or retailers of malt beverages who purchase malt beverages directly from a brewer. There are statutory exemptions and credits.
Breeders' Award Fund Allocation	KRS 230.380	34 percent of commission.	Simulcast facilities remit to the Revenue Cabinet no later than the fifth business day following the close of each week of racing.
Cigarette Enforcement and Administration Fee	KRS 365.390	0.1 cent per pack (rate subject to change annually).	Fee paid by cigarette wholesalers and unclassified acquirers to provide for the expenses of Revenue Cabinet in administering and enforcing the Unfair Cigarette Sales Law and the Cigarette Tax Law.
Cigarette Licenses	KRS 138.195	Resident wholesaler \$500 Nonresident wholesaler \$500 Subjobber \$500 Vending machine operator \$ 25 Transporter \$ 50 Unclassified acquirer \$ 50	Annual license fee imposed upon various dealers and handlers of cigarettes. More than one license may be required by the Revenue Cabinet for any dealer or handler depending upon the diversity of his business and the number of established places of business.
Cigarette Tax	KRS 138.130 et seq.	3 cents per 20 cigarettes, proportioned for other quantities.	An excise tax on cigarettes paid by resident and nonresident wholesalers and unclassified acquirers. The tax is paid by purchasing stamps within 48 hours after cigarettes are received by a resident wholesaler. A nonresident wholesaler must affix the tax stamps prior to importing them into Kentucky.
Coal Tax	KRS 143.010, 143.020 et seq.	50 cents per ton minimum or 4.5 percent of gross value. (The minimum tax shall not apply to a taxpayer who only processes coal.)	Tax is based on the gross value of coal severed and/or processed in Kentucky.
Contaminated and Radioactive Waste Material Tax	KRS 138.810 et seq.	10 cents per pound.	Tax is imposed on the processor, which includes any person owning, operating or maintaining a radioactive waste disposal site or facility of contaminated waste material, radioactive waste material or radioactive material for processing, packaging, storage, disposal, burial or other disposition.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1996)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Corporation Income Tax	KRS 141.010 et seq., 155.170	First \$25,000 3 percent 4 percent* Next \$25,000 4 percent 5 percent* Next \$50,000 5 percent 6 percent* Next \$150,000 6 percent 7 percent* All Over \$250,000 7.25 percent 8.25 percent* Business Development Corporations 4.5 percent *Rate changes effective January 1, 1990. Fiscal year taxpayers must prorate based on number of days in taxable year before and after January 1, 1990.	Annual tax on the entire net income of the corporation apportioned and allocated to Kentucky. Corporations whose estimated tax liability will exceed \$5,000 must file a declaration of estimated tax due and pay the estimated tax in three installments. Banking institutions, except bankers banks organized under KRS 287.135, insurance companies and religious, educational and charitable institutions are exempt from corporate income tax. An "electing small business corporation," as defined in Section 1371(b) of the Internal Revenue Code, is recognized as being exempt from Kentucky corporation income tax except for tax on net capital gain of such corporation as provided in KRS 141.040(5).
Corporation License Tax	KRS 136.070 et seq.	\$2.10 per each \$1,000 of capital employed in the business. Kentucky tax is based on the amount of such capital apportioned to Kentucky. Minimum tax is \$30.	Annual license tax levied against any corporation owning or leasing property or having an employee in Kentucky. Public service companies and corporations exempt from income tax (except S corporations) are also exempt from license tax. A corporation with gross income of \$500,000 or less is allowed a credit against the license tax of \$1.40 on each \$1,000 of the first \$350,000 of capital employed.
Distilled Spirits Case Sales Tax	KRS 243.710	5 cents per case.	Excise tax on distilled spirits sold by wholesalers to retailers in Kentucky.
Distilled Spirits and Wine Consumer Taxes	KRS 243.720 et seq.	Distilled spirits containing over 6 percent alcohol by volume per gallon \$ 1.92 per liter 0.5073 Distilled spirits containing 6 percent or less alcohol by volume per gallon \$ 0.25 per liter 0.0661 Wine per gallon \$ 0.50 per liter 0.1321 (Proportionate amount charged on smaller quantities, but not less than 4 cents on any retail container of wine.)	Excise tax imposed upon the use, sale or distribution by sale or gift of distilled spirits and wine. There are statutory exemptions.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1996)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Health Care Provider Tax	KRS 142.301 to 142.359	2.5 percent of gross receipts for hospital services. 2.0 percent of gross receipts for nursing facility services, licensed home health agency services, HMO services (excluding premium receipts) and ICF/MR services. 2.0 percent of gross receipts for physician services. 25 cents per outpatient prescription.	Effective July 1, 1993, a provider tax is imposed on providers of taxable medical services. Registration is required prior to the beginning of operations.
Individual Income Tax	KRS 141.010 et seq.	First \$3,000 2 percent Next \$1,000 3 percent Next \$1,000 4 percent Next \$3,000 5 percent In excess of \$8,000 6 percent	Graduated tax upon an individual's net income. Residents must pay on their entire taxable income. Nonresidents must pay on that portion of their income attributable to Kentucky sources.
Inheritance and Estate Taxes	KRS 140.010 et seq.	Inheritance tax 2-16 percent Estate tax an amount by which the state death tax credit allowable under the federal tax law exceeds the inheritance tax.	The inheritance tax is a tax upon the right to receive property upon the death of another person. The rate of tax and the exemptions allowed vary according to the legal relationship of the beneficiary to the decedent. The total inheritable interest of a surviving spouse is fully exempted.
Insurance Premium Surcharge	KRS 136.392	1.5 percent of premiums.	An insurance premium surcharge on insured Kentucky risks. There are statutory exemptions.
Insurance Premium Taxes	KRS 136.330 to 136.390, 299.530, 304.3-270, 304.4-030	All insurance except domestic life 2 percent Fire insurance* 75 percent *Represents additional tax on applicable premiums.	Annual tax imposed on insurance companies and risk retention groups based upon premium receipts on business done. There are statutory exemptions.
Legal Process Taxes	KRS 142.010 et seq.	Conveyances of real property (deeds) \$3.00 Mortgages, financial statements and security agreements \$3.00 Marriage licenses* \$3.50 Powers of attorney to convey real or personal property \$3.00 Lien or conveyance of coal, oil, gas or other mineral right or privilege \$3.00	Taxes imposed on the filing of an instrument subject to tax or the issuance of a marriage license. Collected by county clerk. *A \$10 SpouseAbuse Shelter Fund fee levied on marriage licenses by KRS 209.160 is, by agreement between the Revenue Cabinet and the Cabinet for Human Resources, also reported and paid to the Revenue Cabinet by county clerks as part of the monthly report of legal process taxes due.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1996)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Marijuana and Controlled Substance Tax	KRS 138.870	\$3.50 per gram on marijuana, loose. \$1,000 per marijuana plant. \$200 per gram controlled substance by weight. \$2,000 per 50 dosage units of controlled substance.	Growers, sellers, dealers, buyers and manufacturers must obtain a tax stamp to affix to the product. Law enforcement agencies must notify the Revenue Cabinet of seizure of product not bearing tax stamp.
Motor Fuels Tax—Gasoline	KRS 138.210 et seq.	9 percent of average wholesale price of gasoline, but not less than 10 cents per gallon. Rate determined quarterly. A 5 cent per gallon "Supplemental Highway User Motor Fuel Tax" also applies.	An excise tax paid by licensed dealers on all gasoline received in this state. There are statutory provisions for partial or full tax refunds for designated users.
Motor Fuels Tax—Liquefied Petroleum Gas	KRS 234.310 to 234.440	Variable rate same as gasoline. The 5 cent per gallon supplemental tax also applies to liquefied petroleum gas.	An excise tax paid by licensed dealers on all liquefied petroleum motor fuel withdrawn to propel motor vehicles on the public highways, unless the carburetion system has been approved by the Natural Resources and Environmental Protection Cabinet.
Motor Fuels Tax—Petroleum Storage Tank Environmental Assurance Fee	KRS 224.60-145	1.4 cents per gallon.	A petroleum storage tank environmental assurance fee is levied on all gasoline and special fuel received in this state by licensed dealers. There are provisions for exemptions or refunds for qualifying gasoline or special fuels not to be used on the public highways.
Motor Fuels Tax—Special Fuels	KRS 138.210 et seq.	Variable rate same as gasoline. A 2 cent per gallon "Supplemental Highway User Motor Fuel Tax" also applies.	An excise tax is levied on all special fuels received in this state by licensed dealers. There are statutory provisions for tax credits and partial or full tax refunds for designated users.
Motor Vehicle Usage Tax	KRS 138.450 et seq.	6 percent of the retail price as defined in KRS 138.450. Optional tax payment method available for U-Drive-It operators based on 6 percent of the gross rental or lease charges.	Tax imposed on new and used motor vehicles when registered for the first time in this state and when ownership is transferred. There are statutory exemptions and credits. Regular usage tax payments are made to the county clerk and forwarded to the Revenue Cabinet. U-Drive-It usage tax payments are made directly to the Transportation Cabinet on a monthly basis.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1996)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Natural Resources Severance and Processing Taxes (Minerals, Natural Gas and Natural Gas Liquids)	KRS 143A.010, 143A.020 et seq.	4.5 percent of gross value. 12 cents per ton (clay production).	<p>Tax of 4.5 percent of the gross value is imposed on every taxpayer engaged in the business of severing and/or processing minerals (including natural gas and natural gas liquids) in Kentucky with the exception of clay. Clay production is taxed at 12 cents per ton. A credit equal to the tax of 12 cents per ton is granted to those taxpayers who sever or process clay sold to and used as a component of landfill construction by an approved waste disposal facility within this state. Also, no tax is imposed on the processing of ball clay.</p> <p>This tax does not apply to fluorspar, lead, zinc, tar sands and barite severed for any purposes; or to rock, limestone, or gravel used for privately maintained but publicly dedicated roads; or limestone when sold or used by the taxpayer for agricultural purposes so as to qualify for exemption from sales and use tax.</p> <p>A credit equal to the tax is allowed on the gross value of limestone which is severed or processed within this state and sold to a purchaser outside this state. This credit is extended only to taxpayers who sever or process limestone through the rip-rap construction aggregate of agricultural limestone stages, and who sell in interstate commerce not less than 60 percent of such stone. The credit shall not be allowed to a taxpayer who processes the limestone beyond the agricultural limestone stages.</p>
Oil Production Tax	KRS 137.120 et seq.	4.5 percent of market value of crude petroleum produced in Kentucky.	Tax on the production of crude petroleum is attached when the crude petroleum is first transported from the tanks or other receptacle located at the place of production. Transporter of crude petroleum, as agent, pays tax for all persons owning any interest in such oil.
Property Taxes:			
Agricultural Products In hands of producer or agent Tobacco not at manufacturer's plant (Storage) Other agricultural products not at manufacturer's plant (Storage)	KRS 132.020(1) KRS 132.020(1), 132.200(6) KRS 132.020 (1), 132.200(6)	1.5 cents (per \$100 of assessment). 1.5 cents (per \$100 of assessment). 1.5 cents (per \$100 of assessment).	State rate only. Also subject to local rates. Also subject to local rates.
Annuities or Rights to Receive Income	KRS 132.215(2)	0.1 cent (per \$100 of assessment).	State rate only.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1996)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Bank Deposits			
Domestic	KRS 132.030(1)	0.1 cent (per \$100 of assessment).	Tax is based on deposits as of January 1 and may be paid by the institution on behalf of the depositors. State rate only.
Out-of-State	KRS 132.020(1)	0.1 cent (per \$100 of assessment).	State rate only.
Bank Shares	KRS 136.270, 136.280	95 cents (per \$100 of assessment). This tax was repealed effective Jan. 1, 1996.	Subject to county and city rates. Tax paid by the bank for the stockholders.
Brokers' Accounts Receivable			
(Also see Margin Accounts)	KRS 132.050	10 cents (per \$100 of assessment).	State rate only.
Car Lines (Private)	KRS 136.120(4)	Subject to annual adjustment.	Subject to annual adjustment. Local tax collected and distributed by the Revenue Cabinet effective January 1, 1994.
Distilled Spirits	KRS 132.020(10)	5 cents (per \$100 of assessment).	Subject to full local rates.
Farm Machinery Used in Farming	KRS 132.020(1)	0.1 cent (per \$100 of assessment).	State rate only.
Goods Held for Sale in the Regular Course of Business	KRS 132.020(11)	5 cents (per \$100 of assessment).	Subject to local rates.
Intangibles			
Money in hand, shares of stock, notes, bonds, accounts and other credits, except those arising from out-of-state business, shares of stock in affiliated companies and other not specified elsewhere.	KRS 132.020(1), 136.120(1)	25 cents (per \$100 of assessment).	State rate only.
Accounts receivable, notes, bonds, credits, nondomestic bank deposits and other intangibles arising from out-of-state business, patents, copyrights and shares of stock in parent or subsidiary companies.	KRS 132.020(2), 132.120(2)	1.5 cents (per \$100 of assessment).	State rate only.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1996)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Leasehold Interest (Owned by tax-exempt governmental unit)	KRS 132.020(1)	1.5 cents (per \$100 of assessment).	State rate only.
Life Insurance Companies (Domestic) Capital Preserves Policy Proceeds on Deposit (Individual)	KRS 136.320 KRS 132.216	70 cents (per \$100 of assessment). 0.1 cent (per \$100 of assessment). 25 cents (per \$100 of assessment).	Also subject to county and city rates. State rate only. State rate only.
Livestock and Poultry	KRS 132.020(1)	0.1 cent (per \$100 of assessment).	State rate only.
Manufacturing Machinery (Owned and used by manufacturers)	KRS 132.020(1) KRS 132.200(4)	15 cents (per \$100 of assessment).	State rate only.
Margin Accounts (See Brokers' Accounts Receivable)	KRS 132.060	25 cents (per \$100 of assessment).	State rate only.
Mobile Homes (Real Property)	KRS 132.750	Subject to annual adjustment. Taxed at real estate rate.	Subject to full local rates.
Motor Vehicles	KRS 132.487	45 cents (per \$100 of assessment).	Full local rates. Collected upon registration.
Pollution Control Facilities	KRS 132.020(1)	15 cents (per \$100 of assessment).	State rate only.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1996)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Public Warehouses Property in storage except goods in transit	KRS 132.260(1)	5 cents (per \$100 of assessment).	Full local rates.
Goods in transit	KRS 132.095	0.1 cent (per \$100 of assessment).	State rate only.
Radio, Television and Telephonic Equipment	KRS 132.020(1)	15 cents (per \$100 of assessment).	State rate only.
Railroads (Intrastate)	KRS 132.020	10 cents (per \$100 of assessment both real and tangible). Subject to annual adjustment. Effective January 1, 1991.	State rate. Local rate.
Raw Materials and Products in Course of Manufacture	KRS 132.020(11), 132.200(4)	5 cents (per \$100 of assessment).	State rate only.
Real Estate not Elsewhere Specified	KRS 132.020(1)	Adjusted annually (by July 1) per KRS 132.020(8); the state real estate rate for 1989 was 20.3 cents per \$100 of assessment, for 1990 was 18.9 cents, for 1991 was 18.7 cents, for 1992 was 18.4 cents, for 1993 was 18.0 cents and for 1994 was 17.2 cents.	Full local rates.
Recreational Vehicles	KRS 132.750, OAG 82-504	Classification depends on permanency of location. 45 cents (per \$100 of assessment).	Subject to full local rates.
Recycling	KRS 132.020(1)	45 cents (per \$100 of assessment).	State rate only.
Retirement Plan or Profit- Sharing Plan Tax	KRS 132.043	0.1 cent (per \$100 of assessment).	State rate only. Taxable to individual participant.
Savings and Loan Associations (Domestic) (Foreign included effective January 1, 1990)	KRS 136.300(1)	10 cents (per \$100 of assessment).	State rate only.

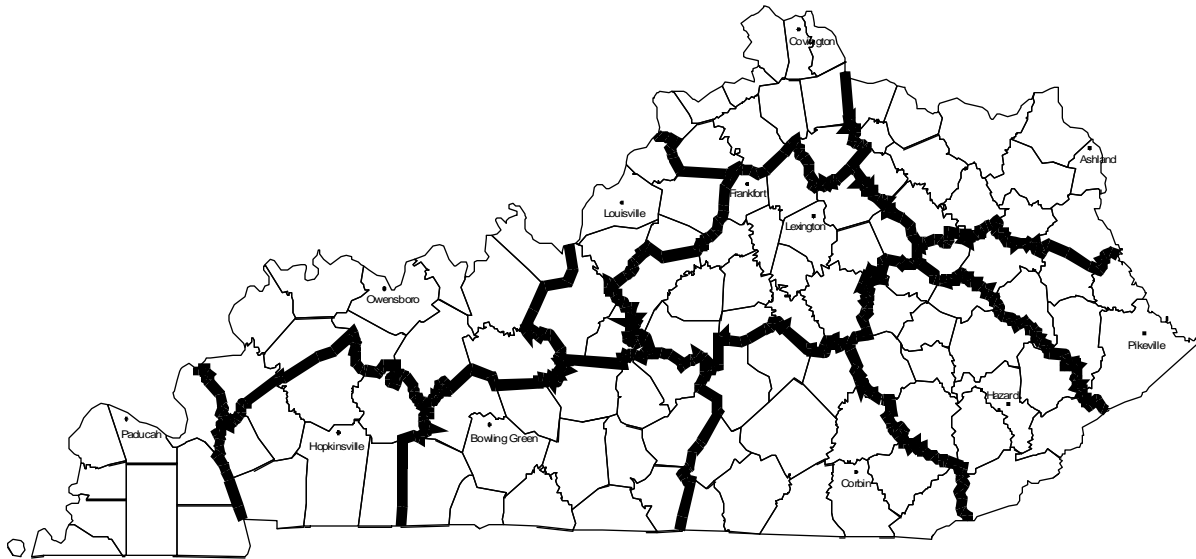
TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1996)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION																
Stocks and Bonds (See Intangibles)																			
Tangible Property not Elsewhere Specified	KRS 132.020(1)	45 cents (per \$100 of assessment).	Full local rates.																
Trucks, Tractors, Trailers, Semi-Trailers and Buses (Interstate)	KRS 136.183	Subject to annual adjustment.	Local tax collected and distributed by the Revenue Cabinet effective January 1, 1993.																
Unmined Coal	KRS 132.020(5)	18.7 cents (per \$100 of assessment) for 1991, 18.4 cents for 1992, 18.0 cents for 1993 and 17.2 cents for 1994.	Full local rates.																
Watercraft Commercial Individual	KRS 136.181 KRS 132.020(1)	45 cents (per \$100 of assessment). 45 cents (per \$100 of assessment).	Full local rates. Full local rates.																
Public Service Commission Assessment	KRS 278.130 et seq.	Maximum assessment 2.0 mills Minimum assessment \$50	Assessment imposed annually on utility companies under the jurisdiction of the Public Service Commission based on proportionate share of gross intrastate revenues by each company.																
Public Service Company Property Taxes	KRS 136.115 et seq.	Property of public service corporations taxed at the same rate as property owned by any individual or corporation (see rates under Property Taxes).	Ad valorem tax based on the fair cash value of the property.																
Racing Taxes: (1) License Tax	(1) KRS 137.170 et seq.	(1) Per day of races. <table><tr><td>Average Daily Mutuel Handle (for preceding year)</td><td>Tax Rate Per Day</td></tr><tr><td>\$ 0 — \$ 25,000</td><td>\$ 0</td></tr><tr><td>25,001 — 250,000</td><td>175</td></tr><tr><td>250,001 — 450,000</td><td>500</td></tr><tr><td>450,001 — 700,000</td><td>1,000</td></tr><tr><td>700,001 — 800,000</td><td>1,500</td></tr><tr><td>800,001 — 900,000</td><td>2,000</td></tr><tr><td>900,001 and above</td><td>2,500</td></tr></table>	Average Daily Mutuel Handle (for preceding year)	Tax Rate Per Day	\$ 0 — \$ 25,000	\$ 0	25,001 — 250,000	175	250,001 — 450,000	500	450,001 — 700,000	1,000	700,001 — 800,000	1,500	800,001 — 900,000	2,000	900,001 and above	2,500	(1) License tax imposed upon the operation of a track at which horse races are run under the jurisdiction of the Kentucky Racing Commission. Reported and paid within 30 days of end of each race meeting. An annual recapitulation report is due on or before December 31 each year for the race year ended November 30.
Average Daily Mutuel Handle (for preceding year)	Tax Rate Per Day																		
\$ 0 — \$ 25,000	\$ 0																		
25,001 — 250,000	175																		
250,001 — 450,000	500																		
450,001 — 700,000	1,000																		
700,001 — 800,000	1,500																		
800,001 — 900,000	2,000																		
900,001 and above	2,500																		

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1996)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Racing Taxes: (continued)			
(2) Admission Tax	(2) KRS 138.480 et seq., 139.100(2)(c)	(2) Tracks under jurisdiction of the Kentucky Racing Commission 15 cents/person	(2) Excise tax on each paid admission to race track. There are statutory exemptions. Reported and paid within 30 days of end of each race meeting.
(3) Pari-Mutuel Tax	(3) KRS 138.510 et seq.	<p>(3) 3.5 percent of total wagered at all thoroughbred tracks under Kentucky Racing Commission jurisdiction with average daily handle of \$1.2 million or more; 1.5 percent if average daily handle is less than \$1.2 million.</p> <p>3.75 percent of total wagered at all standardbred tracks under Kentucky Racing Commission jurisdiction with average daily handle of \$1.2 million or more; 1.75 percent if average daily handle is less than \$1.2 million.</p> <p>3 percent of telephone account wagering and the total wagered at "receiving" tracks.</p>	<p>(3) Excise tax is imposed on every person, corporation or association which operates a horse race track at which betting is conducted.</p> <p>Excise tax is also imposed on receiving tracks participating in intertrack wagering on simulcast races.</p> <p>Average daily handle is computed from the amount wagered at the host track, excluding money wagered at receiving tracks and all telephone account wagering.</p> <p>A portion of the pari-mutuel tax is allocated to the following:</p> <ul style="list-style-type: none"> • Equine Drug Research • Equine Industry Program • Higher Education Equine Trust and Revolving Fund • Thoroughbred Development Fund • Standardbred, Quarterhorse, Appaloosa and Arabian Development Fund <p>Reported and paid weekly.</p>
Rural Cooperative Annual Tax	KRS 279.200, 279.530	\$10.	Annual payment by corporations (RECCs and RTCCs) formed under KRS Chapter 279 in lieu of certain taxes.
Sales and Use Tax	KRS 139.010 et seq.	<p>Sales tax 6 percent</p> <p>Use tax 6 percent</p>	<p>Sales tax is imposed on the retailer for the privilege of making retail sales of tangible personal property.</p> <p>Use tax is imposed on the use, storage or other consumption in the state of tangible personal property purchased for use, storage or other consumption in this state.</p> <p>There are statutory exemptions.</p>
Waste Tire Fee	KRS 224.2613	\$1 per tire sold at retail.	<p>Applies to the retail sale of new motor vehicle tires sold in Kentucky. Does not apply to new cars brought into the state for sale or use. Sales of recapped tires are exempt from the fee.</p> <p>Retailers may apply to the Natural Resources and Environmental Protection Cabinet for exemption.</p> <p>All retailers must report volume of waste tires disposed even if exempt from fee.</p>

KENTUCKY TAXPAYER SERVICE CENTERS



• Taxpayer Service Center

— District Boundary

Ashland, 41105-0687

P.O. Box 687
134 Sixteenth Street
Telephone: (606) 920-2037
Fax: (606) 920-2039

Bowling Green, 42102-2040

P.O. Box 2040
1502 Westen Street
Telephone: (502) 746-7470
Fax: (502) 746-7847

Corbin, 40702-3298

P.O. Box 1298
Falls Road Plaza, Suite 5
1707 18th Street
Telephone: (606) 528-3322
Fax: (606) 523-1972

Frankfort, 40620

200 Fair Oaks Lane, Second Floor
Individual Income Tax Branch
Telephone: (502) 564-4581
Fax: (502) 564-3685

Hazard, 41702-4194

P.O. Box 419
233 Birch Street
Telephone: (606) 435-6017
Fax: (606) 435-6018

Hopkinsville, 42241-0695

P.O. Box 695
105 Hammond Plaza
4011 Ft. Campbell Blvd.
Telephone: (502) 889-6521
Fax: (502) 889-6563

Lexington, 40507-1556

301 East Main Street
Suite 500
Telephone: (606) 246-2165
Fax: (606) 246-2164

Louisville, 40202-2446

620 South Third Street
Suite 102
Telephone: (502) 595-4512
Fax: (502) 595-4205

Northern Kentucky, 41011

Kentucky Executive Building
2055 Dixie Highway
Ft. Mitchell
Telephone: (606) 292-6603
Fax: (606) 292-6642

Owensboro, 42302-0128

P.O. Box 128
401 Frederica Street, Building C
Telephone: (502) 687-7301
Fax: (502) 687-7244

Paducah, 42002-2336

P.O. Box 2336
555 Jefferson Street
Telephone: (502) 575-7148
Fax: (502) 575-7027

Pikeville, 41501

5333 North Mayo Trail
Telephone: (606) 433-7675
Fax: (606) 433-7679